

CONGRESSIONAL DIGEST

The Pro and Con Monthly

March, 1933



Congress and Currency Expansion

What is Meant by "Inflation"?

The Proposed Stabilization of the
Dollar

The Commodity Price Index

Pro and Con Discussion: Should
Congress Enact Legislation for Ex-
pansion of the Currency?

Progress of Major Legislation in
Congress

The Student's Laboratory

All Regular Features



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The Congressional Digest

The Pro and Con Monthly

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The Congressional Digest

Vol. XII

No. 3

March, 1933



Congress and Currency Expansion

Foreword

THE battle for currency "expansion" as its friends call it, or "inflation" as its enemies call it, will be one of the main features of the first session of Congress held during the Roosevelt administration.

The various bills for this purpose introduced in the present Congress will all die on March 4, but everyone of them, and many more in addition to them, will be promptly introduced as soon as the extra session of the Seventy-third Congress convenes—presumably in the latter part of April.

Because none of the present crop of bills will be acted upon, the *Digest*, in presenting this question to its readers, has not attempted to set forth the specific provisions of any of them, except as those provisions are described in special articles and in the Pro and Con section. This is particularly true of the bills for immediate cash.

Attention is given, however, to the Goldsborough bill, which passed the House in May, 1932, because it is supported by those who want the price of the dollar kept in balance with the price of commodities. Advocates of "dollar stabilization" always refer, in their discussions, to the Commodity Index of the Department of Labor. A complete description of this index, with a table showing the range of commodity prices, is, therefore, included. A description of the stabilized dollar plan is to be found in an article by Representative James G. Strong of Kansas, a member of the House Committee on Banking and Currency. The situation in Congress is aptly set forth in the article by Mark Sullivan. In the Pro and Con section basic arguments for and against expansion, rather than discussions of any particular bills, will be found.

An excellent grouping of the types of bills on currency expansion was made by Arthur Crawford, one of the leading financial writers of Washington, in an article appearing in the *Washington Star* for Sunday, January 8. In his article, Mr. Crawford wrote:

"It is somewhat startling to discover that upward of 50 bills embodying various currency expansion proposals

have been introduced in the Senate and House during the present Congress. Many of them are in the Banking and Currency Committees of the two Houses. Others are in the Senate Finance Committee and the House Ways and Means Committee. One currency inflation bill was approved by the Senate Committee on Agriculture. Still others, chiefly those relating to silver, are before the House Committee on Coinage, Weights and Measures.

"The bills may be grouped into seven general classes, as follows:

"1. Fiat Money.—The Patman bill for the immediate payment of the soldiers' bonus by the issuance of Treasury notes, which was passed by the House and defeated by the Senate last Spring, was characterized by President Hoover as fiat money, although its sponsors insist the use of this term is not justified. The newest measure along the same line is the Rankin-Thomas (Oklahoma) bill, which proposes the issuance of 'Liberty' notes for the payment of Treasury deficits until such time as commodity prices are elevated to a proper level. Bills of this type purport to base the new currency on existing gold stocks, but make no provision for additional reserves.

"2. Currency Secured Otherwise Than by Gold or Silver.—The Frazer-Sinclair-Patman bill, backed by the National Farmers' Union and approved last Spring by the Senate Committee on Agriculture, would provide for governmental financing of farm mortgages at face value by issuance of Federal Reserve notes without gold backing and covered only by bonds secured by first mortgages on farms. The Lankford (Georgia) bill provides for the issuance of circulating Treasury notes secured by first liens on farm property to the amount of 80 per cent of the value of such property. The Campbell (Pennsylvania) bill provides for the issuance of full legal tender Treasury notes at the request of States, counties, municipalities or townships which present as security bonds based on local public improvements. The Kelly (Pennsylvania) bill provides for the issuance of \$5,000,000,000 of emergency credit bonds exchangeable for Federal Reserve notes, for deposit with banks for use in making loans designed to stimulate industry.

"3. Currency Secured by Government Bonds Heretofore Issued.—Congress, in spite of the opposition of the administration, experimented with a mild form of controlled inflation of currency by approving the Borah-Glass amendment to the Home Loan Bank law, permitting an increase in national bank notes by giving bonds bearing interest at 3½ per cent and less, the circulation privilege hitherto held only by 2 per cent bonds. There is some sentiment for an extension of this authorization beyond three years, as now provided. The principle of bond-secured currency was involved in a restricted manner in the Glass-Steagall act, initiated by the administration, which permitted substitution of Government bonds for eligible paper as security for Federal Reserve notes, but without changing the requirement for a gold cover of at least 40 per cent. The present Congress will be asked to extend the one-year authorization in the Glass-Steagall act. The Keller bill would give all bonds of the United States the circulation privilege, while the Keller-Walsh (Massachusetts) bill would create an emergency circula-

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What is Meant by "Inflation of the Currency?"

by Mark Sullivan

THIS article is an attempt to reduce "inflation" to an A B C explanation. Three or four years ago I should have said the word was forbidding; that the idea of the average man being willing to try to understand it was fantastic. But I have learned that the one topic the average man is just now most interested in, most earnest in trying to understand, consists of ideas and plans having to do with this depression and how to get out of it. There is a ferment of discussion of theories about business, even theories about social organizations and forms of government. Especially is there ferment about money, about the disparity between debtor and creditor—all the subjects embraced in what the colleges call "political economy."

The word "inflation" now flames through newspaper headlines, resounds in debates. Yet I doubt if, as yet, the average man knows what it means, except vaguely—and to know inflation vaguely is not to know it at all. Speaking generally, the people do not understand "inflation" any more than they understand "technocracy" when it began to appear in the newspapers a few weeks ago.

Scores of proposals having to do with inflation have been introduced in Congress, many by Senators or Representatives who are to be taken seriously. The climax of discussion of it will come some time after March 4. It is known that nothing can be done about inflation in the present Congress. The bills are introduced in expectation of the coming in of the new administration March 4, and of the special session of the new Congress which Mr. Roosevelt will call—the date of which is expected to be some time in April. So that the current interest in theories of finance is going to coincide with discussion of inflation in Congress, and with probable action on it by Congress. The action of Congress some time during the Spring, may be either adoption or rejection.

When a wave of thought and discussion about such a subject as inflation gets under way, it is apt to go far. In the mid-'90s there was, as now, a depression. Then, as now, the debtor, especially the farmer owing a mortgage, was in distress. Then, as now, discussions of theories of money arose, suggested devices about money. In that condition in the '90s, an obscure man living in West Virginia named William H. Harvey, wrote a pamphlet crudely bound in paper and crudely illustrated, which he called "Coin's Financial School." The little book was said at the time to have sold in larger quantity than any other book ever published in America, even "Uncle Tom's Cabin." Indeed, Harvey's book about the cruelties of the gold-standard dollar was called "the Uncle Tom's Cabin" of currency. "Coin's Financial School" had an immense influence. Its influence was in the direction of causing the average man to be persuaded that inflation was good. "Coin's Financial School," as the chief among many influ-

ences, almost brought about adoption of the "free and unlimited" coinage of silver, and almost carried William Jennings Bryan to the presidency in 1896. The momentum of "Coin's Financial School" was arrested, partially, when orthodox economists and conservatives generally saw what was happening, and started a counterwave of education about sound money.

It is not too much to say now that the battle of 1896 is on again. (Incidentally the book that William Jennings Bryan wrote about the 1896 fight was called "The First Battle.") To avoid appearance of trying to say the sensational thing, I should add that, surveying the coming Congress and the coming administration, I do not believe inflation will be adopted. I should add again, however, that many persons thoroughly well informed believe inflation will be adopted. The most conspicuous place where this anticipation prevails is in the financial community, and bankers are notoriously apprehensive and nervous.

In any event, whatever the doubt about adoption of inflation, there can be no doubt whatever that agitation about it is ahead of us. Hence, the desirability of attempting to clarify what inflation is.

"First, define your terms." The word "inflation" is in great need of definition because it is used so loosely, means different things to different men. For the purpose of this article, "inflation" means increase in the quantity of money.

That is the broad definition, but it must be narrowed. For the purpose of clarifying the word and the situation, we had best begin with some elementary facts. Because I must be brief, I am obliged to omit technicalities and qualifications. What is aimed at here is a rough statement of basic facts.

"Money" is of two kinds. They are:

Currency money.

Credit money. (Or bank money.)

"Inflation," in the broad sense, means to increase the quantity of either or both these kinds of money. On the day I write this article, the quantity of currency-money in the United States is \$5,676,000,000—call it six billion. The quantity of credit-money is \$45,852,000,000—call it forty-six billion. (I take the total quantity of bank loans and instalments as the total quantity of credit-money. There is inexactness in this, but it is not misleading and I must be brief.) To repeat:

Currency-money	6 billions
Credit-money	46 billions

It will be observed there is about eight times as much of credit-money as of currency-money. Therefore it is credit-money that is the more important to us. Actually, by far the largest quantity of business transactions in the United States is carried on with credit-money. Any person realizes that the quantity of payments made with bank checks is larger than the quantity made with currency.

Now there can be inflation (that is, increase in the quantity) of credit-money and there can be increase in the quantity of currency. The two are very different. The former, increase in the quantity of credit-money is approved by the orthodox and the conservative. One may

say increase of credit-money is not resisted by anybody. The conservatives see no harm in it. And to radicals, so called, or debtors, increase of credit-money is as good as any other.

Increase of credit-money would undoubtedly lift us out of many of our troubles. It would increase prices of goods, land, everything. It would therefore make debts easier to pay.

To increase the quantity of credit-money would be an actual restoring of the damage done by the depression. What depression means chiefly is that a great quantity of credit-money has been destroyed. When a share of the United States Steel Corporation sold at \$200, an owner of it could borrow \$150 at the bank and that was \$150 of credit-money. Most of that has been destroyed, for a share of Steel stock is now worth only about \$30 and an owner of it could hardly borrow as much as \$10 on it. Similarly, when a bushel of wheat was worth \$1, a farmer could borrow, say, 75 cents of credit-money on it; wheat is now less than 50 cents a bushel. When a farm was worth \$10,000 a farmer could borrow \$5,000 of credit-money on it; the same farm is now worth less than \$5,000.

In short, the depression has destroyed a great quantity of credit-money. If we could recreate this destroyed credit-money, the depression would be cured. The Federal Reserve System knows this, and the Treasury and the other fiscal authorities of the Government know it. Eugene Meyer, Jr., governor of the Federal Reserve Board, knows and wants to inflate the quantity of credit-money. So does Secretary of the Treasury Ogden L. Mills. For just about a year the fiscal agencies of the Government have been following policies designed to increase the quantity of credit-money. Their effort has not been materially successful, however. All they can do is to increase the quantity of possible credit, of material for credit, in the banks. This does not become actual credit-money until people borrow it and use it. People, so far, have not done this much. Consequently, we may say that the effort to inflate credit-money has not been successful. (Though it may begin to be successful any time, and inflation of credit-money may get under way.)

In the absence of increase of credit-money—and speaking generally as a result of the depression—there is in Congress, and elsewhere, a great demand for increase of currency-money. This proposed increase of currency-money is what is meant by "inflation" as the word is commonly used.

To say why people do not borrow this credit from the banks and use it, and thereby create credit-money, would be to get involved in the vicious circle which this depression is. People do not borrow credit and put it to work because there is a depression. And there is a depression because people do not borrow credit and put it to work. It is a vicious circle of fear.

The type of attempted inflation here described, inflation of credit-money, figures in Congress hardly at all. What "inflation" means in Congress is inflation of currency-money.

What "inflation" means as the word is used in Congress is, namely, increase in the quantity of currency—actual printing of more dollar bills, or minting of more silver dollars. To increase the quantity of dollar bills, or to mint more silver dollars is the object of most of the more than 60 inflation measures in Congress.

For some reason those Representatives who get sufficiently interested in inflation to introduce bills aimed to bring it about, do not think in terms of inflation of credit-money at all. Yet the fact is that increase of credit-money (which the conservatives do not oppose—which, indeed, hardly anybody opposes—which indeed the Federal Reserve System is trying to bring about) is very much easier and very much more important. The bulk of the country's business is done with credit-money. This is shown by the fact that there is in existence about forty-six billion dollars of credit-money and only about six billion dollars of currency.

The inflation bills pending in Congress can be divided into roughly three classes. What is said about these bills must be loose and inexact, because each varies somewhat from the others and all are complex.

One group of measures proposes that the Government shall merely print more dollar bills. These dollar bills, in the spirit of most of the proposals, would be used by the Government to pay its daily expenses. At present the Government is spending approximately \$3,000,000 a day more than it receives in taxes or other revenues. To meet this deficit the Government's practice is to borrow money by issuing bonds upon which the Government pays interest. This group of inflation measures would have the Government get the money by simply printing it.

Another group of inflation measures would have the Government mint silver dollars. Some would have the Government buy the output of silver mines in America, mint it into dollars, and pay out these dollars. Other measures would have the Government settle the debts due us from Europe by accepting silver and then mint the silver and pay it out.

A third group of measures aims at inflation in another way. These measures would reduce the quantity of gold in the gold standard dollar from a present 25.8 grains to 16.5 grains. Incidentally, I suspect that if inflation comes at all—which I do not think it will—this is the form it would more probably take. Reducing the quantity of gold in the standard dollar would have enormously complex results, because there are in America mortgages and other contracts amounting to billions of dollars which call for payment in "gold dollars of the present weight."

But there is a considerable school in Congress which thinks the weight of gold in the standard dollar should be reduced. The idea of "going off the gold standard," as it is called, is in the air. Practically every country in the world except France and the United States have done so. There will be much agitation about it, in Congress and out, but I do not believe that either this or any other form of inflation—that is, inflation of currency—will actually be enacted.—*Extracts, see 10, p. 96.*

The Proposed "Stabilization" of the Dollar

by Hon. James G. Strong

THE stabilization of the purchasing power of money is favored by those who use it as a measure of value, and opposed by those who use the fluctuating purchasing power of money for profit.

When a Government establishes a monetary system its first duty should be to stabilize the monetary unit of value of that system.

The fathers who established our Government attempted to do this when they provided in the Constitution that "Congress shall coin money—and regulate the value thereof."

Congress provided for the coinage of money and as our Government grew and our financial system developed it sought to regulate the value of our money by declaring that 25.8 grains of gold, nine-tenths fine, should constitute a dollar, or unit of value, accepting the universal theory that the stability of the price of gold would stabilize the dollar's value. But the price of gold has not remained stable, and consequently the purchasing power of our money fluctuated.

In what is termed "good times" commodity prices rise as money becomes plentiful and cheap. Speculation follows and we have inflated prices, always to be followed by deflation, or falling prices, and we have "hard times," as the purchasing power of the dollar rises.

These periods of inflation or deflation, meaning rising commodity prices, when money is plentiful and cheap, or deflation when money becomes scarce and costly, result in great financial losses to the people of the Nation.

The black Friday of 1873 was the high mark of a disastrous inflation when banks crashed, business men failed, manufacturing plants closed, millions of men were thrown out of work, and farmers had no market for their products. My own father, with thousands of others, lost his all during this crisis and went west to establish a new home, and I became a citizen of Kansas. Coming to Congress in 1919 I became a member of the Banking and Currency Committee of the House and watched the inflation of prices as the result of an abundance of cheap money until the peak was reached in May, 1920. Then followed the deflation of the prices of commodities. The purchasing power of the dollar rose and commodity prices fell until the low point was reached in 1921.

Dr. Wilford King, professor of economics of New York University and a recognized authority on the wealth of the Nation and national incomes, estimated that this inflation and deflation brought about a confiscation of wealth from its rightful owners amounting to \$40,000,000,000, or an amount equal to that expended by the Nation during the World War.

The present deflation of commodity prices, as the purchasing power of the dollar again rose, reached its lowest

point this year, and it has been estimated that the confiscation of wealth has resulted in the loss of over \$100,000,000,000.

Between these two latter deflations we had a fairly stable value of money and commodities between 1921 and 1929, which did not come about by accident. There was a master mind in the Federal reserve system. The late Benjamin Strong, governor of the Federal Reserve Bank of New York City, had influenced the use of the powers of the Federal reserve system for stabilizing the purchasing power of the dollar, or the commodity price level, which are one and the same. He realized that when the Federal reserve system was created Congress gave to it the powers to regulate the volume of money of the Nation and to greatly influence the cost of the same.

What are these powers? Under the Federal reserve act of 1913 that established our Federal reserve system, 12 great Federal reserve banks were established, and all of the national banks of the Nation, and the State banks that might become members of the Federal reserve system, were required to create a great reservoir of credit by depositing with these Federal reserve banks 3 per cent of all their time deposits and 7 per cent of their commercial or open-account deposits, amounting to over three thousand millions of dollars; and under the law these funds could be invested in Government securities which the banks had the right to buy and sell. The Federal reserve system was also given the right to regulate the rate of discount that should be charged the member banks for discounting their eligible paper. Thus when they took the money from their vaults to purchase Government securities they increased the volume of money that could be used as a basis for credit, and when they sold Government securities, which returned the money to their vaults, they decreased the volume of money that could be so used.

When the Federal reserve act first passed the Senate it contained the clause that the discount rate should be used to stabilize the price level. But this clause was stricken out in conference.

Governor Benjamin Strong successfully used these powers for stabilization. When the commodity price level started to fall and the dollar to rise he, as chairman of the board for the purchase and sale of Government securities, purchased bonds and influenced the reduction of the discount rate, thus increasing the volume of money and reducing its cost. When prices started to rise and the purchasing power of the dollar to fall he sold bonds and influenced the increasing of the discount rate, thus reducing the volume of money and increasing its cost.

A simple process of regulating the "supply and demand" and cost of money, to the end that the value of money, as measured by what money will buy, would be stable in its purchasing value. Governor Strong was so engaged in trying to develop and improve the Federal reserve system, to which he sacrificed his life, and realizing the jealousies among the principal officers of the Federal reserve system, that while he used its powers for stabilization he made practically no announcement of such policy.

During the sessions of Congress of 1922 to 1926 Prof. Irving Fisher, of Yale University, the author of The

Money Illusion and many other valuable books on the money question, advocated the stabilization of the purchasing power of money through regulating the quantity of gold that should represent the dollar. This is called the quality theory of money stabilization. Representative T. Alan Goldsborough of Maryland introduced a bill in Congress in 1922 having this theory as a basis. Hearings were held on this bill by the Banking and Currency Committee.

In 1926 George H. Shibley, an economist of Washington, D. C., learning that I was studying a remedy for the disaster of inflation and deflation, directed my attention to the fact that in the original draft of the Federal reserve act the powers of the Federal reserve system were directed to be used for promoting stability in the price level and urged me to introduce a bill for this purpose. While I was unable to agree with him as to the form of the bill I did introduce H. R. 7895 in the first session of the Sixty-ninth Congress, a bill in which I used the words "all the powers of the Federal reserve system shall be used for promoting stability in the price level." Hearings were held upon this bill by the Banking and Currency Committee at which some of the most prominent economists in the United States appeared and discussed the question.

Finding that groups who profit by the fluctuating price of money were opposing the same by the use of the untrue statement that I was seeking to regulate prices, I changed the form of the bill in the next Congress to a direction that all the powers of the Federal reserve system should be used for stabilizing the purchasing power of money.

Among the witnesses appearing before our committee was Gov. Benjamin Strong, who admitted that he had been using the powers of the Federal reserve system with success in stabilizing the purchasing power of the dollar, but took the position that Congress ought not by law to so direct the Federal reserve system, because he feared that if in administering the law the officers of the Federal reserve system should fail to secure all that the people might require and demand, it would bring complaint, criticism, and injury to the Federal reserve system. I made it plain to him that I was a firm believer in and friend of the Federal reserve system, but was convinced that Congress, who had given these great powers to the Federal reserve system, should direct their use in the stabilization of the purchasing power of the dollar, and urged him to lend his great ability to the preparation of such a bill.

Dr. J. R. Commons, professor of economics in the University of Wisconsin, whose great interest in the stabilization of the purchasing power of money had led him to generously employ his leave of absence to visit Washington and assist me in the study of this question, was also a witness in these hearings. Finally Governor Strong agreed that while because of his position as governor of the Federal Reserve Bank of New York he did not want to be known as taking an active part in the preparation of such a bill, yet in the interest of having such a bill drawn that would not injure the Federal reserve system, that he was willing to lend such assistance. Dr. J. R. Commons and I then visited New York and had an all-day conference with Governor Strong, with the result that it was agreed a temporary draft of a bill might be prepared by W. R. Burgess, then assistant Federal reserve agent of the New York bank, and Doctor Commons, to be then submitted to Governor Strong and myself for agreement.

This resulted in my introduction on March 6, 1928, of House bill 11306, which after directing that "the Federal

reserve system shall use all the powers and authority now or hereafter possessed by it to maintain a stable gold standard; to promote the stability of commerce, industry, agriculture and employment; and a more stable purchasing power of the dollar, so far as such purposes may be accomplished by monetary and credit policy," directed that the Federal Reserve Board and Federal reserve banks were authorized and directed to make and to continue investigation and study for the guidance of the system's policies with regard to the purposes of the bill. Extensive hearings were also held upon this bill in March, April, and May, 1928.

I set forth these facts that it may be known that while Gov. Benjamin Strong refrained for the reasons I have stated in openly taking any part in having Congress direct the Federal reserve system in the use of the powers it gave to the same, felt and nevertheless believed in the use of such powers for the stabilization of the purchasing power of the dollar, and even went so far as to arrange a meeting between the Federal Reserve Board and myself, at which he was present on March 17, 1928, in the hope that they might be induced to take a more sympathetic attitude toward such a policy.

Those who have not studied this subject may raise the question as to what measure of value shall be used in determining when the purchasing power of money increases or lessens with regard to the prices of commodities. The statistical bureau of the Department of Labor issues weekly what is called an Index Number of Commodity Prices, obtained by taking the average wholesale prices of over 700 commodities. When this average of commodities for which money is exchanged sinks week after week, the purchasing power of money rises, and when this index of commodities prices rises the purchasing power of money sinks. So by using the Index of Commodity Prices, as published by the Department of Labor of our Government, the purchasing power of the dollar may be adequately measured.

Realizing that the failure of the use of the powers to regulate the supply and demand of money and the regulation of the discount rate for the stabilization of the purchasing power of our dollar had so depressed prices, at the opening of this session of Congress I introduced House bill 49, carrying in addition to provisions of my former bills the direction that the wholesale commodity price level of 1926 should be regained and maintained.

The present bill, H. R. 11499, recently reported out of the Banking and Currency Committee by Representative Goldsborough, who was chairman of the subcommittee that prepared it, contains the same principles of my original bill and those that I have introduced since. It simply directs that the powers of the Federal reserve system, which the Government has given to it, shall be used to stabilize the purchasing power of money. When the commodity prices steadily decrease in value, as they have from July, 1929, to the present time, as shown by the price-index level issued by the Department of Labor, the officers of the Federal reserve system and the Secretary of the Treasury are directed to purchase Government securities and reduce the rate of discount, thus increasing the volume of money and reducing the cost of the same and vice versa.

Because the greater part of the present indebtedness of the people of this Government was created from 1921 to 1929, we directed that this policy of increasing the volume of money and reducing the discount rate shall be followed

until the purchasing power of money shall be restored to the average of such purchasing power as existed from 1921 to 1929, which will be that of 1926, and to be there maintained.

This is not inflation; it is reflation or deflation of the present high value of money. The principal officers of the Federal reserve system have stated before our committee that they are using the powers of the Federal reserve system to this purpose now. The bill simply directs that they shall so continue until the purchasing power

of the dollar shall be established at its purchasing power from 1921 to 1929. The officers of the Federal reserve system have said, "We are pursuing the policy you urge, but should not be directed by Congress to do so."

It is just a question of whether we are big enough to say to the board that we have created, "You shall use these powers we have given you for the benefit of all the people of the United States and not for those who deal and profit in the fluctuating purchasing power of our dollar."—*Extracts, see 11, p. 96.*

How the Commodity Price Index of the U. S. Department of Labor is Prepared

AN annual bulletin on wholesale prices has been published by the Bureau of Labor Statistics since 1900. In that year was issued a report designed to bring up to date the record of prices in the report of the United States Senate Committee on Finance for the years 1840 to 1891, published in 1893. Subsequent annual reports were included in the March issues of the bimonthly bulletin of the bureau for the years 1902 to 1911, inclusive, and were published separately thereafter. Statistics of wholesale prices have also appeared in the Labor Review since its inception in July, 1915, and in a pamphlet monthly since March, 1922.

Beginning with the 1921 bulletin, an important change was made in the grouping of commodities. In preceding reports of the bureau the plan was followed of arbitrarily confining an article to a particular group, regardless of its fitness for inclusion also under other group designations. In the bulletin for 1921 articles properly falling under more than one of the classifications adopted were included under each classification. For example, structural steel, nails, and certain other metal products used in building were placed in the group of building materials as well as in that of metals and metal products. Similarly, food articles produced on the farm which reach the consumer practically unchanged in form, such as potatoes, eggs, and milk, were included both among farm products and among foods. In computing the general index number for all commodities, however, such articles were counted only once, thereby avoiding duplication in the final result. This plan has been continued in subsequent bulletins.

Besides the inclusion of certain articles in more than one group, a rearrangement of commodities within the several groups to provide for subgroups of closely related articles was made.

In addition to these subgroups, index numbers are shown for non-agricultural commodities in comparison with farm products. There is also given a series of index numbers of raw materials, semimanufactured articles, and finished products, in which all commodities have been distributed among these three groups.

In constructing the index numbers, the year 1926 was selected as the base period. This choice was made because of the fact that 1926 was the last completed year when the work of revising its series of wholesale price index numbers was undertaken by the bureau in the summer of 1927, and it therefore furnished the most dependable standard for measuring price changes. Moreover, taken as a whole, market conditions in 1926 were regarded as fairly close to normal for the postwar period.

For individual commodities index numbers were obtained in all cases by dividing the monthly or yearly average prices by the average price in 1926 and multiplying the result by 100. For groups of commodities index numbers were calculated as follows: The average price in 1926 of each article in the group was first multiplied by the average of the estimated quantities of that article marketed in the years 1923 and 1925, these years being the latest for which complete census information was available. For farm products the average of 1923, 1924, and 1925 was used, since dependable information for all three years was obtainable. The products of prices times quantities marketed were then added to give the approximate value in exchange in 1926 of all articles in the group. Similar weighted aggregates of prices were made for all other years from 1923 to 1928 and for all months of that period in the manner described above. These group aggregates were then converted into index numbers by dividing the aggregate for each year or month by the aggregate for 1926 and multiplying the result by 100. The index numbers for any group are thus seen to be percentages of the 1926 aggregate for that group.

If, during the period of 16 years covered by the index numbers, there had been no changes in the list of commodities, or in their relative importance, the percentage changes in the cost of the different commodity groups would be accurately measured by dividing the aggregates for all years and months by the corresponding aggregates for 1926. However, articles have been added or dropped from time to time as circumstances demanded, while substitution of one article for another at a different price has been necessary in numerous instances. Also, many commodities have greatly increased or decreased in importance within the period. Therefore a method had to be adopted that would allow for variations in the number and importance of commodities. This method consists in computing two separate aggregates for any year or month in

which a change occurs, the first aggregate being made strictly comparable with the aggregate for the preceding year or month and the second aggregate strictly comparable with the succeeding year or month. In this way comparison between any two consecutive years or months is limited to aggregates made up of identical articles and weighting factors.

The index number for 1924, with 1926 as the base period, was found by direct comparison of similar weighted price aggregates to be 100.6. The ratio of the aggregate for 1923 with 1923-1925 weights (\$1,410,740,000) to the aggregate for 1924 with 1923-1925 weights (\$1,612,757,000) is 100 to 114.32. Therefore the index number for 1923 on 1924 as the base period is 100 divided by 114.32, or 87.5. Multiplying 87.5 by 100.6 (the index number for 1924 on 1926 as the base period) gives 88.0 as the index number for 1923 on the 1926 base.

Turning next to the years 1922 and 1923 in comparison, with 1921-1923 weights, we find the ratio is 100 to 103.48. Therefore the index number for 1922 on 1923 as the base period is 100 divided by 103.48, or 96.6. Multiplying 96.6 by 88.0 (established as the index number for 1923 on 1926 as the base period) gives 85.0 as the index number for 1922 on the 1926 base. Index numbers for all other years of the period have been computed in like manner as the above example.

The weighting factors used in computing the present series of index numbers back to 1913 are as follows: For the year 1913 the mean of 1909 and 1914 data; for 1914 to 1919, inclusive, the mean of 1914 and 1919 data; for 1919 to 1921, inclusive, the mean of 1919 and 1921 data; for 1921 to 1923, inclusive, the mean of 1921 and 1923 data; and for 1923 to 1927, inclusive, the mean of 1923 and 1925 data. In certain cases, where census or other reliable data were lacking, estimates based on the best information available have been resorted to. While the figures used must in many cases be regarded as mere approximations, they are believed sufficient to insure to each commodity its proper influence during the period covered. Cases of change in the list of commodities have been handled in the same manner as changes in weighting factors.

To ascertain the quantities of the various commodities marketed during the years covered by the index numbers, every available source of information, official and private, was drawn upon. In the case of articles consumed to a large extent by the producer, as corn, oats, hay, etc., only the portion actually marketed, as near as could be determined, was taken. A similar plan was followed with regard to semimanufactured articles, such as cotton and worsted yarns, pig iron, and steel billets, which often are carried into further processes of manufacture in establishments where produced. The quantity of the article sold was ascertained as nearly as possible and used to weight the prices. In addition to these 550 commodities the present bulletin contains prices of a number of articles not used in constructing the index numbers.

In some instances the prices shown in the present bulletin are composites made by averaging several quotations. Examples of such composites are leather harness, suit cases and traveling bags, anthracite and bituminous coal, manufactured gas, plows, automobiles, sewing machines, cookstoves, brick, Portland cement, prepared fertilizers, furniture, and automobile tires. In all cases simple averages of the prices obtained from different sources were

made. No attempt to weight the different elements entering into any composite price was made, since in most cases it would be a physical impossibility to ascertain the quantity of the article sold at the reported price. In a few instances, where the reported prices were regarded as truly representative, the composite price was made from only three quotations, but in no case from less than three. To preserve the continuity of the information, care was taken that the quotations for any month be obtained from the same sources and on articles of the same description as the month before. These composite prices are believed to furnish a more accurate barometer of price changes than would prices based on a single source of information.

In the selection of commodities for inclusion in the bureau's reports on wholesale prices it has been the aim to choose only important and representative articles in each group. To this end, in addition to utilizing all available information from official sources, careful inquiry has been made in the principal market centers to determine which articles within the general class or group enter to the largest extent into exchange from year to year. In the case of butter and several other articles the quotations have been enlarged in recent years by the addition of lower priced grades that were found to constitute a considerable part of the volume of sales. In the case of commodities classed as chemicals or drugs, where a range of prices was found, the lower quotations were selected because these quotations are believed to represent the prices of larger lots, while the higher quotations represent the prices of smaller lots.

So far as possible the quotations for the various commodities have been secured in their primary markets. For example, the prices quoted for livestock and most animal products, as well as for most grains, are for Chicago; cotton prices are for Galveston and New Orleans; wood prices are for Boston; flour prices are mainly for Kansas City and Minneapolis; iron and steel prices are for Pittsburgh, etc. The prices are, in all instances where this information could be obtained, based on first-hand transactions. Thus the cattle and other livestock prices used are those paid by slaughterhouses to the commission man acting for the producer. Grain prices are those ruling on the floor of the exchange for grain shipped in by country elevators. Cotton and wool prices are for sales made to manufacturers. Cotton and woolen goods prices are in most instances those quoted by manufacturers to wholesalers, jobbers, and manufacturers of wearing apparel. Butter and egg prices are for consignments to the wholesale trade. Fluid milk prices are those to producers for milk delivered on city platform. Flour prices are those made by millers to large wholesale dealers, jobbers, and bakers. Leather prices are those from tanners to manufacturers. Pig iron prices are those to foundry operators and large steel makers. Steel prices are those to jobbers or large manufacturing consumers.

For commodities of great importance more than one price series has been included, in the bulletins. In no case, however, is an article of a particular description represented by more than one series of quotations for the same market. For most articles weekly prices have been secured. In a large number of instances, particularly since the beginning of 1918, it has been possible to obtain average monthly prices from daily quotations. For those commodities whose prices are quite stable, such as certain textiles and building materials, only first-of-the-month prices have been taken.—*Extracts, see 12, p. 96.*

Purchasing Power of the Dollar

Changes in the Buying Power of the Dollar, Expressed in Terms of
Wholesale Prices, from January, 1926, to December, 1931.

(Bulletin of the United States Bureau of Labor Statistics, No. 572)

Year and month	Farm products	Foods	Hides and Leather products	Textile products	Fuel and lighting	Metals and metal products	Building materials	Chemicals and drugs	Housefurnishing goods	Miscellaneous	All commodities
1926											
Average for year.....	\$1.000	\$1.000	\$1.000	\$1.000	\$1.000	\$1.000	\$1.000	\$1.000	\$1.000	\$1.000	\$1.000
January.....	.931	.975	.968	.945	1.012	1.001	.987	.985	.989	.909	.969
February.....	.951	.994	.985	.952	1.008	1.003	.991	.993	.990	.941	.980
March.....	.983	1.007	.998	.974	1.017	1.005	.995	.994	.991	.952	.994
April.....	.973	.995	1.013	.987	1.020	1.008	1.002	1.002	.993	.966	.997
May.....	.977	.999	1.010	.998	.993	1.013	1.008	1.000	.997	.976	.995
June.....	.991	.995	1.012	1.005	.991	1.007	1.009	.994	.998	.984	.996
July.....	1.014	1.013	1.010	1.011	1.004	.997	1.006	.997	.999	1.021	1.005
August.....	1.029	1.026	1.004	1.011	.995	.993	1.000	1.001	1.000	1.032	1.009
September.....	1.007	1.002	1.012	1.012	.987	.991	1.000	.997	1.003	1.042	1.003
October.....	1.021	.993	.991	1.024	.989	.992	1.000	1.007	1.004	1.045	1.006
November.....	1.056	.996	.997	1.037	.978	.993	.995	1.011	1.004	1.074	1.016
December.....	1.054	.994	.997	1.048	1.006	.996	1.001	1.010	1.013	1.085	1.021
1927											
Average for year.....	1.006	1.034	.929	1.046	1.133	1.038	1.056	1.033	1.026	1.099	1.048
January.....	1.036	1.030	.991	1.059	1.018	1.031	1.017	1.020	1.026	1.091	1.036
February.....	1.048	1.041	.999	1.059	1.035	1.041	1.029	1.020	1.026	1.089	1.044
March.....	1.062	1.056	.996	1.060	1.094	1.041	1.036	1.030	1.026	1.089	1.056
April.....	1.060	1.054	.983	1.058	1.152	1.043	1.036	1.022	1.026	1.088	1.063
May.....	1.038	1.049	.965	1.059	1.164	1.037	1.041	1.046	1.026	1.089	1.062
June.....	1.036	1.055	.934	1.056	1.160	1.040	1.049	1.041	1.024	1.095	1.063
July.....	1.025	1.060	.998	1.057	1.160	1.044	1.056	1.046	1.027	1.103	1.060
August.....	.978	1.058	.897	1.042	1.163	1.041	1.060	1.046	1.026	1.099	1.050
September.....	.944	1.035	.889	1.020	1.159	1.044	1.070	1.035	1.026	1.103	1.038
October.....	.952	1.000	.887	1.024	1.163	1.047	1.074	1.030	1.028	1.112	1.035
November.....	.959	.986	.878	1.032	1.176	1.049	1.088	1.028	1.025	1.117	1.038
December.....	.958	.993	.858	1.035	1.181	1.038	1.092	1.029	1.025	1.110	1.037
1928											
Average for year.....	.944	.990	.824	1.047	1.186	1.031	1.063	1.046	1.052	1.171	1.034
January.....	.943	.991	.829	1.011	1.208	1.046	1.085	1.040	1.036	1.110	1.037
February.....	.957	1.012	.808	1.042	1.205	1.045	1.085	1.041	1.037	1.121	1.044
March.....	.966	1.018	.808	1.047	1.209	1.043	1.087	1.044	1.043	1.125	1.047
April.....	.929	1.003	.792	1.046	1.208	1.042	1.078	1.043	1.047	1.140	1.035
May.....	.911	.988	.795	1.044	1.198	1.041	1.070	1.047	1.047	1.144	1.026
June.....	.937	.997	.811	1.046	1.192	1.037	1.059	1.053	1.055	1.176	1.034
July.....	.922	.978	.808	1.044	1.183	1.038	1.056	1.055	1.056	1.196	1.027
August.....	.935	.963	.829	1.047	1.166	1.026	1.054	1.053	1.055	1.211	1.025
September.....	.919	.939	.831	1.054	1.157	1.025	1.054	1.050	1.055	1.206	1.014
October.....	.967	.979	.853	1.053	1.161	1.020	1.050	1.045	1.063	1.208	1.034
November.....	.984	1.000	.867	1.053	1.166	1.014	1.044	1.045	1.063	1.209	1.044
December.....	.965	1.019	.867	1.052	1.172	1.004	1.044	1.044	1.063	1.212	1.044
1929											
Average for year.....	.953	1.001	.917	1.106	1.205	.995	1.048	1.062	1.060	1.211	1.049
January.....	.944	1.011	.882	1.081	1.188	.999	1.047	1.046	1.065	1.209	1.043
February.....	.949	1.019	.918	1.083	1.206	.994	1.043	1.045	1.066	1.209	1.048
March.....	.933	1.017	.924	1.082	1.218	.978	1.034	1.049	1.066	1.214	1.041
April.....	.953	1.020	.928	1.092	1.221	.978	1.038	1.056	1.064	1.221	1.047
May.....	.978	1.020	.937	1.103	1.212	.988	1.047	1.063	1.064	1.220	1.056
June.....	.968	1.009	.927	1.110	1.183	.988	1.050	1.071	1.057	1.214	1.050
July.....	.929	.972	.917	1.116	1.200	.990	1.052	1.072	1.060	1.206	1.036
August.....	.930	.966	.913	1.114	1.217	.995	1.050	1.068	1.060	1.208	1.038
September.....	.938	.968	.904	1.114	1.209	.997	1.044	1.067	1.060	1.203	1.041
October.....	.962	.986	.907	1.117	1.203	1.002	1.043	1.064	1.056	1.202	1.052
November.....	.989	1.011	.923	1.129	1.202	1.013	1.059	1.066	1.057	1.214	1.070
December.....	.981	1.013	.932	1.139	1.203	1.015	1.059	1.070	1.056	1.217	1.072

Year and month	Farm products	Foods	Hides and Leather products	Textile products	Fuel and lighting	Metals and metal products	Building materials	Chemicals and drugs	Housefurnishing goods	Miscellaneous	All commodities
1930											
Average for year.....	1.133	1.105	1.000	1.245	1.274	1.086	1.112	1.122	1.079	1.287	1.157
January.....	.990	1.028	.951	1.147	1.224	1.029	1.060	1.075	1.066	1.230	1.081
February.....	1.020	1.044	.962	1.157	1.236	1.032	1.064	1.083	1.068	1.232	1.094
March.....	1.056	1.060	.969	1.179	1.259	1.035	1.065	1.094	1.070	1.236	1.109
April.....	1.044	1.054	.974	1.190	1.258	1.049	1.070	1.096	1.070	1.235	1.111
May.....	1.075	1.085	.975	1.199	1.245	1.070	1.082	1.109	1.070	1.244	1.126
June.....	1.125	1.101	.977	1.225	1.267	1.088	1.112	1.119	1.071	1.276	1.152
July.....	1.203	1.152	.992	1.255	1.282	1.151	1.130	1.133	1.074	1.305	1.185
August.....	1.178	1.142	1.010	1.282	1.284	1.116	1.140	1.138	1.076	1.314	1.186
September.....	1.172	1.117	1.088	1.312	1.266	1.124	1.148	1.147	1.083	1.330	1.185
October.....	1.212	1.126	1.035	1.339	1.289	1.138	1.159	1.153	1.086	1.339	1.205
November.....	1.261	1.160	1.062	1.348	1.328	1.139	1.170	1.163	1.093	1.350	1.230
December.....	1.330	1.214	1.094	1.357	1.351	1.138	1.179	1.168	1.126	1.361	1.256
1931											
Average for year.....	1.543	1.340	1.161	1.508	1.481	1.183	1.263	1.261	1.178	1.433	1.370
January.....	1.368	1.239	1.127	1.403	1.364	1.151	1.193	1.183	1.133	1.385	1.279
February.....	1.427	1.282	1.151	1.410	1.379	1.156	1.212	1.200	1.135	1.399	1.302
March.....	1.416	1.289	1.142	1.429	1.464	1.157	1.212	1.206	1.136	1.389	1.316
April.....	1.427	1.311	1.143	1.466	1.529	1.167	1.227	1.230	1.138	1.399	1.337
May.....	1.490	1.355	1.142	1.484	1.531	1.176	1.250	1.242	1.152	1.418	1.366
June.....	1.529	1.364	1.136	1.502	1.590	1.185	1.261	1.259	1.157	1.435	1.387
July.....	1.541	1.351	1.119	1.504	1.590	1.186	1.280	1.267	1.167	1.435	1.389
August.....	1.575	1.340	1.127	1.527	1.504	1.192	1.289	1.300	1.178	1.464	1.387
September.....	1.653	1.357	1.176	1.550	1.484	1.192	1.299	1.311	1.209	1.466	1.404
October.....	1.701	1.364	1.212	1.587	1.475	1.208	1.314	1.323	1.235	1.502	1.422
November.....	1.704	1.408	1.225	1.608	1.411	1.211	1.312	1.314	1.236	1.441	1.425
December.....	1.795	1.447	1.253	1.645	1.464	1.217	1.321	1.314	1.274	1.484	1.458

Foreword Cont'd

tion fund to furnish currency to banks, corporations or citizens depositing Government bonds.

"4. Currency Based on Silver.—There are several different plans for increasing the part played by silver in our currency system. The silver group believes there is a world shortage and maldistribution of gold and that the monetary base should be broadened. The Wheeler-Evans bill proposes free coinage of silver at a fixed ratio of 16 to 1. The Pittman and Arentz bills provide for the purchase by the Treasury of up to 5,000,000 ounces of silver monthly, silver certificates being used in payment and the bullion being coined into silver dollars for the redemption of the certificates. The Somers, Cross, Glover and Borah bills provide for the purchase of silver and the issuance of silver certificates under various different methods. The Somers-Hayden resolution provides for acceptance of silver in payment of foreign debts and the use of such silver in the currency system.

"5. Revaluation of the Gold Dollar.—Under the compensated dollar plan, involving a regulation of the gold content of the dollar, there would be automatic adjustments, with a view to keeping it at a point where a dollar would always buy a fixed quantity of goods, as determined by the index number of the general price level. The American Farm Bureau Federation proposes what amounts to a 50 per cent increase in the official price of gold, to correspond to the appreciation in its purchasing power. The redemption value of outstanding paper cur-

rency would be lowered. The official price of gold in the future would be adjusted, so as to maintain the purchasing power of the gold dollar at the 1921-1929 level. There have been pending in Congress for some time the Busby, Burness and Goldsborough bills, embodying plans of Prof. Irving Fisher and other economists for controlling the value of the gold dollar.

"6. Expansion of Credit and Currency Through the Federal Reserve System.—The Goldsborough bill, which was passed by the House last Winter and is pending in the Senate, contemplates control of the price level by the use of the powers of the Federal Reserve system, which include its so-called open market operations under which the Federal Reserve Banks expand credit and currency by buying Government bonds. The Ramseyer-Dickinson, Strong and Keller bills are similar in principle to the Goldsborough bill. An early draft of the Goldsborough bill conferred power upon the Federal Reserve Board to control the official price of gold. The American Farm Bureau Federation has sponsored the Goldsborough bill, but now is giving precedence to the gold control plan because of the failure of recent open market operations of the Federal Reserve system to influence commodity prices.

"7. New Monetary Plans.—The McFadden bill embodying the ideas of a secret organization known as the Crusaders for Economic Liberty would abolish the gold standard and the Federal Reserve system and set up a new monetary system based on "human effort," the standard of value being the wages of unskilled common labor. Suggestions outside of Congress for new monetary bases have included electrical energy and various commodity standards."

Should Congress Enact Legislation for

Committee Report

Goldsborough Stabilization Bill

THE Committee on Banking and Currency, to whom was referred the bill (H. R. 11499) to amend the Federal reserve act by adding at the end thereof a new section, and for other purposes, having considered the same, report favorably thereon with recommendation that the bill do pass without amendment.

Within the scope of a committee report it is not possible to discuss in detail the technical economic principles involved in H. R. 11499, but it is possible to determine the anticipated workings of the action of the principle if it is crystalized into legislation.

The bill has two features; an emergency feature and a permanent feature. The emergency feature contemplates a rise in the general commodity price level to the average existing between 1921 and 1929, inclusive, and the substantial maintenance of that price level.

As to the emergency feature, all authorities agree, first, that it is impossible for the debts of the country to be paid at the present price level, and that unless the price level is raised the business of the country is headed for inevitable bankruptcy, and second, that the present price level is unjust to debtors.

Speaking roughly, but with substantial accuracy, the dollar will purchase about \$1.60 more of commodities than in the 1921-1929 period, and about \$1.56 more of commodities than it would purchase between the period of 1918-1931 and the first quarter of 1932, inclusive. It would purchase now what it would have taken \$1.25 to purchase about a year ago, which means that the producer, that is, the debtor, is being confronted with an ever-increasing burden. His debts, principal, and interest remain fixed. The commodities he sells and which would have purchased a given number of dollars when he borrowed them have decreased in their purchasing power.

To go one step further, unemployment is constantly increasing, because on a constantly declining market business can't go on. It is impossible to produce below the cost of production.

The Committee on Banking and Currency after a most painstaking and careful investigation by a subcommittee, reached two conclusions: First, that the average price level from 1921 to 1929 would reestablish substantial justice, between debtor, and creditor, and second, that a rise to the price level of 1921-1929 would make lower standards of living unnecessary, would justify salaries and wages at the predepression level; in short, would make unnecessary the process of painful economic readjustment, which will have to be consummated if the price level is not raised.

The committee also reached the conclusion that unless the price level were raised substantially to the point above indicated, the burden of debt would not only seriously

Sentiment among those members of the Senate and House of Representatives who have concentrated their efforts on any single issue of currency expansion has not as yet reached a dividing line simply between those who favor expansion, regardless of the particular problem, however, are considered in the following

hamper production and destroy the producing class as now constituted, but that the creditor class, being unable to collect their fixed obligations, would also go down in the crash.

Then the question arose as to what could be done.

The Federal reserve system under the leadership of Benjamin Strong, former governor of the Federal Reserve Bank of New York, measurably stabilized for several years the price level by open market operations, and by adjustment of the rediscount rates of the Federal reserve banks. The Federal reserve system has been accumulating gold at the average rate of \$200,000,000 a year for about six years, and is now in a much stronger position than it was at the time of the open market operations just referred to.

It is in a position to put into the market \$4,000,000,000 in Federal reserve notes, and still maintain its 40 per cent reserve requirements. By utilizing its power to lower reserve requirements of the Federal reserve banks the system could put into the market nearly \$9,000,000,000 of Federal reserve notes. Either sum, if the country knew that because of a congressional mandate, the Federal reserve system was going to raise the price level to the point indicated, would be much more than sufficient to raise it, because as soon as the country understood what the policy of the Federal reserve system, as provided by law, was, confidence among banks and business men would be restored, bank loans would expand, the retailer would buy from the wholesaler, the wholesaler would buy from the manufacturer, the manufacturer from the producer of raw materials, and the masses of the people would find employment, so that through buying of securities by the Federal reserve banks and through the restoration of confidence as above indicated, the normal business activity of the country would very speedily be reestablished.

Even more important than its emergency feature the committee deems the stabilizing feature of the bill. It would be the duty of the Federal reserve system under the bill, if enacted into legislation, to control the credit and currency of the country in a manner to satisfy the legitimate needs of business, and prevent unwholesome and unjustified expansion. If unjustified and unwholesome expansion were controlled, periods of inflation and depression would also be controlled, because periods of deflation and depression always follow periods of unwholesome overexpansion and speculation.—*Extracts, see 1, p. 96.*

For the Expansion of Currency?

CON

the Senate and House who desire currency point where they are all ready to meet place of legislation. In presenting a measure, therefore, the Digest has drawn the support of those who favor expansion and those who oppose it. All phases of the problem are covered in the following statements.

Hon. Ogden L. Mills

AFTER almost four years of a world-wide economic depression, characterized by an enormous contraction of business and commerce; a precipitous though uneven decline in price levels; dislocated foreign exchanges; currency depreciation and instability in many countries; the erection of arbitrary trade barriers, and the dislocation of world markets, it is not surprising that there is much confusion of thought and a general bewilderment as to the most effective point at which these manifold difficulties are to be attacked. Nor is it to be wondered that many people, dissatisfied at the slow progress made in reestablishing a foundation for recovery—though progress has been made—instead of recognizing the need of attacking the several basic problems one by one, seek through some general formula to remedy the universal malady even at the cost of sacrificing certain fundamental principles, the disregard of which has inevitably brought increased disaster in the past. Under the stress of the times they seek to minimize, or fail to realize the vital importance of maintaining beyond question the credit of the government, upon which in the final analysis our entire public and private credit structure depends, and of preserving at all costs the most valuable of national assets—a sound currency.

In doing so they advocate the very policies which we so severely criticized when followed by other countries heavily beset with difficulties, and the disastrous consequences of which as applied to others we saw with a clarity of vision which seems to be lacking in our own case. There is a great distinction between viewing these problems objectively and coming to grips with them ourselves. But wise and cool-headed men will retain their objective viewpoint and apply to the conduct of their own fiscal affairs that clear judgment they applied to the fiscal affairs of others.

Visit those countries of Europe which, through force of circumstances rather than choice, experienced the panacea of inflation and you will find that they fear inflation more than any other economic phenomena. They know what it means for they have learned in the hard school of experience.

We have had a sound currency for so long that we take the soundness of the money which we handle for granted, and it is difficult to us to picture the ruinous effects of currency depreciation. Whereas our purchases and sales, in fact, all of our daily reckonings, have been expressed in terms of a definite standard—a fixed quantity of gold—these means of daily transactions would, if the inflation were violent enough to force us off the gold standard, have to be conducted on the basis of a dollar of doubtful, ever-changing and ever-declining value. We cannot adequately picture the disastrous and paralyzing effect on the economic life of the nation which would result from the necessity of carrying out the simplest and the most complicated business and financial transactions in the terms of a monetary unit of doubtful and shifting value.

For the first time in almost half a century our nation is called upon to face the fundamental problems involved in the maintenance of the national credit and of a sound currency. I except the war-time period when, under totally different circumstances, we faced financial problems of the first importance.

There are two main groups of proposals seeking a short-cut out of the depression by means of governmental action, in contrast with what, for want of a better name, I may call an orthodox or semi-orthodox program. These two groups are by no means distinct and separate. They tend to overlap and both would probably reach the same terminal, though by different routes.

The first group would bring about inflation by the piling up of large governmental deficits that cannot be met through normal borrowing operations, of which proposals for a huge public works program is an example; the second, by partial or complete debasement of the currency. Under the first program the government must inevitably resort to the central banks of issue. They, not acting on their own volition but the government compulsion, are driven to provide the basis for a credit increase. Such a procedure was resorted to during the war. In fact, many of our agricultural troubles today are directly traceable to this war-time inflation of prices of agricultural products and land. The best example, however, is furnished by the course of events in France after the war. The French government, faced with recurring deficits, turned to the Bank of France for funds. The government gave its promissory notes to the bank. The bank, in turn, gave banknotes to the government. The currency was paid out by the government to meet current expenditures. The procedure reduced the value of the franc from 19 cents to 2 cents, and complete collapse of the monetary system was threatened before the inflation was brought under control.

Under the second and more powerful method of inflation, the United States government would issue a paper dollar which would have no value except for the say-so of the government. It will be urged, of course, that the promise of the United States government is worth a great deal. It is under ordinary circumstances and when the government conducts its business with prudence and in

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Hon. T. Alan Goldsborough

ALL authorities agree that unless the price level is raised there is no way for the debts of the country to be paid, because the value of the things which when sold are used to pay debts have fallen on an average of more than 50 per cent below their prices when the debts were contracted, whereas the debts do not fluctuate as prices fluctuate but remain fixed. Therefore we find that for the first time in history both the creditor class and the debtor class are anxious for price levels to be raised to a point which will be fair as between debtor and creditor. The debtor wants the price level raised so that he can pay his debts with money which is no higher, or at least not much higher, than it was at the time he contracted his debt, and the creditor wants the price level raised in order that the one who owes him may not be forced into bankruptcy, which would prevent the creditor from collecting his obligation.

To illustrate: The case of a farmer who paid \$5,000 for his farm at price levels which preceded this depression, and who gave a mortgage of \$3,000 on his farm, paying in cash \$2,000. Now, since the depression, the products with which the farmer can pay his debts and fixed obligations have fallen more than one-half, and the selling price of his farm has fallen to around \$2,000. At present price levels the farmer cannot pay the interest on his mortgage, the taxes on his farm, the insurance on his buildings, his fertilizer bills, and other fixed charges. If the mortgagee was to sell the farm in order to have his mortgage debt paid, he would only receive \$2,000, less the expenses of sale, or around \$1,800, and would lose \$1,200; insurance premiums and fertilizer bills would not be paid at all and the payment of the farmer's taxes would be delayed, so that a rise in the price of farm commodities not only protects the farmer who is the debtor but protects the mortgagee, the fertilizer company, the insurance company, and the treasury of the State and county, who are all creditors.

This bill is not intended to help one class any more than another class. It is intended simply and solely to restore justice as between producer and consumer, debtor, and creditor, as only by and in so far as you can achieve justice between all classes of the people can you have a productive people, a contented people, a happy people, and a people who do not feel that they are being unjustly treated.

The other day I was asked how this bill would help a man to get a job. In other words, how it would help the unemployment situation. I answered that the unemployment situation was the condition that the bill was designed to cure more than any other condition. I said that I would be perfectly content for the bill, instead of providing for the price level of 1921 to 1929, to provide that the price level should be raised until unemployment was reduced to what may be called its irreducible minimum. In other words, to a point when practically everyone who wanted employment could obtain employment. I was asked to explain further my statement. I said that the Subcommittee of the Committee on Banking and Currency of the House, of which I was chairman, had made a very

careful study as to the price level which would be fair to producer and consumer, debtor and creditor, and would thus cause the least possible economic disturbance, and that we found the general price level existing between 1921 and 1929, inclusive, to be substantially fair to all classes; fair treatment for each class would mean, in general, employment for those who desired employment; so that if the law provided for a rise in prices until the unemployment problem was solved, it would mean practically a rise in the price level existing from 1921 to 1929, inclusive. Probably the first thing which will occur to you will be, how can the price level be raised; and, second, how can it reasonably be maintained after it is raised? These are both fair questions, and I am going to answer them as well as I can within the few minutes I have to speak.

The Federal reserve system is now in a position to put into the market \$4,000,000,000 in Federal reserve notes, and still maintain its 40 per cent gold reserve requirements. By utilizing its power to lower the reserve requirements of the Federal reserve banks, the system could put into the market nearly \$9,000,000,000 of Federal reserve notes. Either sum, if the country knew that because of a congressional mandate the Federal reserve system was to raise the price level to the point indicated, would be much more than sufficient to raise it, because as soon as the country understood that the policy of the Federal reserve system was directed by law to a given point, confidence among banks and business men would be restored, bank loans would expand, the retailer would buy from the wholesaler, the wholesaler would buy from the manufacturer, the manufacturer from the producer of raw materials, and the masses of the people would find employment, so that through buying of securities by the Federal reserve banks and through the restoration of confidence as above indicated, the normal business activity of the country would very speedily be reestablished. You will then say, "Well, we see by the papers that the Federal reserve system is now buying about \$100,000,000 a week of securities, so why pass a law to carry out and compel them to do exactly what they are now doing."

The answer is this: The Federal reserve system for more than a year before they went into the market for Government securities were, to my knowledge, entreated to do that very thing. The Federal Reserve Board was told that with the immense amount of gold we had here in this country and with about \$17,000,000,000 of Government securities in the market they could safely buy Government bonds to an almost unlimited degree, and thus place money into circulation, raise the price level, and restore confidence. To my knowledge, the Federal Reserve Board was told that unless they did that very thing we would have the business depression, the collapse, and the unemployment that we now have. If this legislation is passed and becomes a law, and is administered enthusiastically and sympathetically by the Federal Reserve Board, it can by its open-market operations and its control of the rediscount rates speedily raise the price level to the indicated point. Should this bill become a law, they may have to take very little affirmative action, because the knowledge that they are directed to do it will so reassure the people that business expansion, which means credit expansion and rising price levels, will take place very quickly.

The next question you will probably ask will be: "How can the general commodity price level be maintained by

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accordance with the dictates of sound financial policy. But, if the government of the United States should undertake to print and pass out "say so" money, it would at once destroy confidence in all United States currency.

The people know that greenbacks depreciated to 35 per cent of their face value. They know that the "say so" marks printed by the German government depreciated from a value of 24 cents to zero. They know that once the United States embarks on this course United States currency is going at once to depreciate in value.

What would happen? It should be recognized that the bad effects of such currency issues would be immediate and would occur even if the issues were moderate in amount, but in order to have an effect on prices the issues would have to be of very large dimensions. So long as our currency were redeemable in gold every holder of currency, every one with a bank balance, every foreigner with balances in this country, or American securities, would at once convert them into gold. In a very short while our gold stock would approach exhaustion. We would be obliged to suspend gold payment. We would then find ourselves on an irredeemable paper currency basis, with currency that, as the vicious spirit of inflation circled upward, would constantly decrease in value.

The first effect would be to enormously diminish the value of all savings. Every man or woman whose savings were deposited in savings banks, or which took the form of insurance policies, or are represented by investments in bonds or mortgages, other than those payable in gold, would find their savings and their income from those savings correspondingly reduced.

Prices and the cost of living would rise very rapidly.

While wages and salaries would also rise, they would lag behind so that though business would in the early stages be stimulated, and to that extent unemployment relieved, the wage earning and salaried classes would find themselves involved in a situation from which there would be no escape, with their real wages and standards of living falling steadily. Production, stimulated by rising prices, would increase rapidly. But with the decreased purchasing power of the fixed income and of the wage earning classes there would soon develop a serious maladjustment which would eventually result in collapse.

The farmer would appear, in the first instance, to be the gainer. If his mortgage were not payable in gold, he could pay it off in cheap currency. Rising prices would be reflected in what he received for his products. But the rise in the prices of what he must buy would soon offset the gains. Furthermore, as the values of farm land rose through the process of inflation, new debts would be incurred at the higher levels, and when the final crash came he would find himself worse off than ever, with a much heavier burden of debt and his markets destroyed. While inflation at some stages in the process and at some points appears to correct some of the evils arising during a period of deflation, the one outstanding characteristic of the movement is that once started it soon becomes com-

pletely out of control and pursues an irresistible course until it collapses.

All experience teaches that, whatever the earlier appearance may be, all classes are ultimately adversely affected by the process of inflation, and eventually it results in ruin to the economic life of a nation and brings terrible disaster to all of its people.

While I believe that increases in commodity prices over prevailing depression levels would be clearly desirable, any attempt to lift prices through currency manipulation, is based on an utterly false conception of the problem which is presented by declining commodity prices.

The kind of program which I would like to see initiated and which I think would lay a foundation for a sound recovery is as follows:

First, a balanced budget; second, an easy money policy consistently pursued by the principal central banks; third, a definite attack on the debt problem, not by wholesale treatment but by setting up adequate machinery to deal with different categories of debts; fourth, a settlement of the foreign debt question; fifth, a stabilization of world exchanges by a return in the first instance to the gold standard by the more important commercial and industrial countries; sixth, the lifting of arbitrary trade barriers.

I believe that if these measures were carried through in a broad and constructive spirit the stimulus to world economy would be so great that there would be an immediate response in the way of an industrial and commercial expansion and a marked increase in prices, accompanied gradually by essential readjustments.

I should like to quote what I consider a very pertinent statement made by William Graham Sumner in 1896, when the question of cheapening the dollar was an active issue:

"The plain fact, therefore, to be faced without any disguise is that we are invited to debase the coinage and lower the standard of value, now and for the future, as a free act of political choice, to be deliberately adopted in a time of profound peace, and that this is to be done with the intention and hope that it will perpetrate a bankruptcy at 50 cents on the dollar for all existing debtors. Can this project be executed? It cannot. The scheme and plan of it for a nation of 70,000,000 people is silly and wicked at the same time, and is both, beyond the power of words to express. The projectors of it deal with the economic phenomena of a great nation as if they were talking about a game at cards, and they plan to do this with prices and that with debts, this with reports and that with banks, as if they were planning a program for building a barn. If we try to realize the operation proposed we shall see how childish and absurd it is."—*Essays*, see 2, p. 96.

 Bernard N. Baruch

THERE are many people who earnestly believe that we can make commodity prices higher by the simple process of issuing more money. It is a complex question but what does our experience show? In December 1932 we had outstanding nearly 5.7 billions of money and Dun's Commodity Index stood at 133.9. The

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the operation of the Federal reserve system?"

Now, speaking roughly, it would be the duty of the Federal reserve system under this bill to watch the index number of the Bureau of Labor Statistics. When the index number began to fall the Federal reserve system should put money into circulation by buying Government securities and by this means raise the price level approximately to the indicated point; and then, if the price level moves above the indicated point, the Federal reserve system would withdraw money from circulation by selling Government securities and thus send the price level down approximately to the given point as indicated above. The Federal reserve system would also use its power to raise and lower rediscount rates.

The whole thing is very simple. It has absolutely no purpose except justice for everybody. The Congress knows perfectly well that the Federal reserve system would not be able to attain absolute perfection in carrying out the law, but beyond any doubt the system could carry out the purposes of the law in a practical way and thus avoid periods of undue business expansion, price inflation, and speculation, which invariably lead to collapse such as society is now in, and which has resulted in untold hardship and despair.

You hear a great deal in this country about overproduction, a word that in its broad sense should never be used, because, if the people have the buying power they will consume the normal production of the country. With our labor-saving devices and our mass production we can produce enough in the country for every man, woman, and child to live in comfort and reasonable luxury. The problem of production in this country has been solved and the problem of statesmanship now is to solve the problem of distribution. This problem must be solved in a manner which is right and fair to everybody, and has no object but justice. I am one of those who have been studying the principle involved in this bill for many years. The principle involved in this bill has been discussed and analyzed in congressional hearings before the Banking and Currency Committee for the last 11 years. In my judgment, the bill, if sympathetically administered, will be a profound factor in the solution of this great problem of distribution which I have just mentioned—*Extracts, see 3, p. 96.*

Hon. Harold McGugin

CONGRESS can reduce the value of the gold dollar. It is by act of Congress that the gold dollar is worth 22.23 grains of gold. Congress can reduce the value of the gold dollar by providing that the dollar shall

be worth a fewer number of grains of gold. This can be done by providing by law that currency of the United States shall be redeemed in gold on the basis of a fewer number of grains to the gold dollar. On the basis of commodity prices and figures as heretofore stated, a reduction of 38 to 40 per cent of the number of grains in the gold dollar would just about reduce the value of the gold dollar in keeping with the reduction in commodity prices. There has been a request from farm organizations that the gold content of the dollar be reduced to 15 grains. This basis of reduction would still leave a substantial advantage in favor of the creditor over the debtor on the basis of paying 1929 debts with commodities on the 1932 value instead of the 1929 value of commodities.

The reduction of the gold content of the gold dollar to 15 grains is a reduction of slightly over 32 per cent. This action should mean the shaving of every debt by approximately 32 per cent. At the same time it would mean the increasing of our commodity prices. However, so far as the buying power of the money is concerned, it would not be shaving the value of any debt in the country to the buying power of the money when it was loaned in 1929. Reducing the gold dollar and thereby indirectly reducing the debts is not only fair and equitable as between the debtor and creditor but it is the only program in sight which can possibly save the creditor from a greater loss, because when the creditor takes the property he is going to take something which is worth far less than 68 per cent of the face value of the present indebtedness. In addition to this, we have the chance of saving the Government.

Before England went off the gold standard the British pound was worth 4.86 of gold dollars on the basis of 22.23 grains per gold dollar. Today the pound is worth 3.30 of gold dollars on the basis of 22.23 grains per dollar. The pound has depreciated in value \$1.56, or a 32 per cent depreciation. If we were to reduce the gold content of the gold dollar to 15 grains, the British pound would again be worth approximately \$4.86, but it would be of American gold dollars of 15 grains per dollar. There is no way Great Britain can bring the British pound back up to the value of the American gold dollar of 22.23 grains so that the British pound would be worth \$4.86. We can bring the value of the gold dollar down by reducing the gold content so that the British pound will be worth \$4.86.

Would this be only a benefit to England? No; it will be of an immeasurable benefit to the United States. The first day it will benefit every producer of cotton and wheat. It will increase the price of every bushel of wheat and every bale of cotton. This is one way in which the reducing of the number of grains in the gold dollar will directly and instantly increase the commodity prices. As wheat and cotton increase in price the millions of cotton and wheat producers will be able to buy more of other commodities. This increased demand for other commodities is bound to increase their price. This increased demand for other commodities means the gradual return to work of the unemployed. This return of men back to work means more and more people going back to a consuming basis, thus increasing the demand for all commodities and a following increase of commodity prices. The American prices of wheat and cotton are based upon the Liverpool price. Our wheat and cotton are sold in Liverpool for British pounds. Now we are bringing those pounds back to the United States and converting them into \$3.30. With this reduction of the gold dollar we would bring those pounds back to the United States and

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highest commodity prices since 1921 were in May 1928. Dun's price index then stood at 199.2 but the amount of issued money was then only 4.7 billions. Since September 1930, the amount of money issued has risen about one billion dollars while commodity prices have steadily fallen. There is no such thing as arithmetically relating prices to the quantity of issued money.

Quite apart from any figures, the fact that the great bulk of our business is not done in issued money but in "money in the bank" should be enough to suggest that an increase in "cash money" alone could produce no such effect. The fact is that there is no lack of money—either of "money in the bank" or "cash money." In other words, all the money of both classes in 1932 would have financed much more business at prices current then, than all the money of both classes in 1928 would have financed at the height of 1928 activity at prices current then. Yet, in spite of all this excess stagnant pool of money in 1932, business activity was about half what it was in 1928.

For three years we have conducted a vast but vain experiment in inflation. Not being willing to sacrifice for a balanced budget, we have been selling Uncle Sam's due bills—not to people who have "money in the bank" which already exists and is backed by securities representing economic goods—but mostly to the banks themselves. The government was saying in effect to a bank, "Put this Treasury due-bill for \$1,000,000 in your vault and write on your books a credit to the Government of \$1,000,000." After this transaction, the Government wrote checks for its expenses for that \$1,000,000 and, by that process, without anything representing economic wealth having been deposited in that bank, but only a Treasury promise representing a deficit, the Government added \$1,000,000 to the sum of all the "money in the bank."

We have coined our deficit to pay our expenses. I can see no fundamental difference between what we have done and the proposals to issue Federal Reserve Notes or other currency to pay for our deficits, which our inflationists now propose as a sure-fire method of raising prices, except that the inflationists do not propose to go half as far as our Treasury has already gone. Out of more than five and one-half billions of dollars of deficit which we have piled up during the depression, nearly five billions is represented by increases in the holdings of Government securities by Federal Reserve and member banks alone and, as I read the news reports, the Assistant Secretary of the Treasury thinks total holdings of government securities by all banks is as much as ten billions of dollars. Be that as it may, Government has added at least five billions and probably the whole deficit to "money in the bank." But it has produced no such beneficent effect on prices as the inflationists think would come from issuing a much lesser amount in Federal Reserve notes to pay expenses. Those notes, if issued, would be "money in the bank" just as quick as the recipients could deposit them in their bank accounts. Both plans come to the same thing in the end, but I fear that we have gone to the limits of prudence already in this method of federal financing and I doubt

if we can continue to get money in that way. It has clogged our pools of bank credit. It has obscured the whole question of federal credit by creating an artificial market for federal securities. It is this method of financing that has lulled the country into complacency on the effects of deficits. Nobody can say with confidence that, in this condition, we can borrow in the ordinary way by selling long-term bonds. The outgoing Administration will leave the cash balances at a low point and present us with a dangerous and totally obscure fiscal problem at the very outset. Delay in balancing the budget is trifling with disaster.

What is the matter with this theory that more money will make prices go up? To answer that you must ask, "What is it that makes the prices of things go up?" It is the fact that a prospective buyer would rather have the thing than the money. In booms, people prefer things to money because they hope the price of things will go up and they know that the price of money will not. If, at such a time as that, we make credit easy or issue more money, people will borrow to buy. So many people do that at the same time that their buying makes things scarce and sends prices higher. The higher prices go, the more people are able to borrow on the collateral of things, to buy more things and to send prices still higher. At such a time, if the Federal Reserve "buys government bonds" (which is what I think the Secretary of the Treasury means when he speaks about invoking central bank credit) or if the Government issues still more money and does other things to make speculative buying easier, it can precipitate a boom as it did in 1920.

But when nobody has confidence; nobody wants to buy things, which fall in price. Everybody wants to sell things to get money, which does not fall in price. In the scramble to exchange things for money, prices drop and that restricts credit still more because it reduces the collateral of loans. That forces more selling to protect loans and that forced selling sends prices still lower. At such a time, government cannot force prices up by issuing more money because nobody will use credit to buy things because nobody wants to buy anything.

In other words, confidence is the basis of higher prices. If there is no confidence, no amount of tinkering with the currency can raise the price level. On the contrary,—and this is the very heart of the whole problem of the depression—deficits and the financing of them by "bank money" inflation (or even the mere talk of monetary inflation) impair confidence still more and drive money deeper into hiding.

I am aware of the rejoinder: "If you think inflation will have no effect on prices, why do you object to trying it?" The first answer is the one I have just made—that the mere talk about proposals of inflation prevents confidence and bars recovery. That is the essence of our present trouble. It is not lack of money or credit. Men cannot go back to work until money goes back to work. Men risk their money in commerce because they expect to get it back with a profit but nobody will risk dollars which the government threatens to devalue. Business moves on faith in promises. Money itself is a promise. Every sale and every employment is a promise to do something and to pay something. Money will not go to work in the presence of any such desperately dangerous fiscal policy as we have pursued and are still pursuing—much less in an atmosphere full of talk of the repudiation of money and debts by both men and governments. That is why I

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convert them into \$4.86. This will immediately give the cotton and wheat farmers a better chance to pay their debts. This program will inevitably increase the price of cotton and wheat. No man knows whether or not it is possible to use any form of farm legislation which will permanently increase the price of these farm commodities. What is here said of wheat and cotton is applicable to all exportable commodities of the farm, mine, and factory.

Bringing the British pound and the American dollar together on the old established exchange basis by reducing the value of the gold dollar will immediately benefit every American manufacturer and every American laboring man. It will make it possible for American manufacturers to compete with British factories. It will immediately remove a condition which is causing our markets to be flooded with British products manufactured with labor paid with the depreciated British money. What is said of England is equally true of France, Japan, China, and other countries which are operating with depreciated currency or depreciated silver money.

Coming now to our foreign debts which are due the Government of the United States, they are payable in gold dollars of 22.23 grains per gold dollar. It is generally assumed that France can pay her debt to the United States in gold on the basis of 22.23 grains per gold dollar. I believe that it is safe to say that anyone who has fully studied the foreign debt situation believes that it is utterly impossible for practically all of the rest of our debtor countries to pay their debts to the United States Government in gold on the basis of 22.23 grains to the gold dollar. Their inability to pay simply means that this country must either take the loss through legal scaling of these debts or through an ultimate repudiation on the part of these countries. In either event, this Nation loses and the burden upon the American taxpayer is increased. If the foreign countries are forced to repudiation, that means future ill will between this country and the foreign countries and a destruction of our foreign market. We shall probably try the process of leveling the boycott against our defaulting debtors. We shall probably suffer more by that than will the foreign countries. What we need is increased commerce; not a program of our deliberately stopping commerce.

If we reduce the number of grains in the gold dollar, we thereby automatically reduce the foreign debts in the same proportion. The British debt is today, for all intents and purposes, 32 per cent more than when England went off the gold standard. At that time, when the British taxpayers paid into the British treasury one British pound for the purpose of paying on the American debt, that pound paid \$4.86 of the debt. Today when the British taxpayers pay into the British treasury one British pound to be applied on the American debt it pays \$3.30 of the debt. Now, if we shave the British debt by reducing the number of dollars paid to this country, it simply means that the American taxpayers must in turn pay in that many more dollars of taxes to be applied on the outstanding bonds of the Government of the United States, which bonds were issued for the purpose of obtaining

money to loan to England. It only increases an intolerable tax burden on the people of this country, a burden which they are now unable to bear. Instead of reducing the number of dollars paid to this country by foreign countries, and thereby increasing the tax burden and the debt of this country, we might better reduce the amount of gold in the gold dollar, permitting England to be given credit for \$1 on her debt every time she sends 15 grains of gold to the United States instead of when she sends 22.23 grains of gold to the United States. Reducing the gold content of the gold dollar reduces the foreign debt and at the same time reduces the debt burden, private and public, in the United States. Reducing the number of dollars to be paid to the United States by England only increases correspondingly the debt and tax burden in the United States.

There is so much of the commerce of the world based upon the American dollar and the British pound that any dislocation in the normal exchange value of these two monies means economic chaos. The living standards of the world, the debts of the world, and the markets of the world are very largely established and based upon the British pound and the American dollar with an exchange rate of \$4.86 for the British pound.

At this time with the British pound worth \$3.30 practically every farmer, every banker, every wage earner, and every dollar of debt, private and public, throughout the world are suffering from the monetary dislocation growing out of the depreciated British pound. The truth is, neither the British pound nor the American dollar are able to stand alone without causing untold misery in the world. Great Britain and the United States may each boast of their monetary independence, yet the fact remains the economic and social welfare of the world demands that the yardstick by which the American dollar is to be measured is the British pound and the yardstick by which the British pound must be measured is the American dollar. In order to maintain the established and created economic and social order of the world, \$4.86 in American money must measure one British pound and one British pound must measure \$4.86 of American money.

We hear it said that there are many private and public debts payable in gold of the present weight and fineness. That it would still be necessary to pay these debts with 22.23 grains of gold to the dollar. I cannot believe that the Supreme Court of this country will hold that a gold dollar of the weight prescribed by Congress will not pay a dollar of contracted debt. Under the Constitution Congress has the power to coin money and regulate the value thereof. Under this section of the Constitution Congress coins money and regulates the value thereof by prescribing the amount of metal in the coin. Whenever, under this section of the Constitution, Congress declares that there shall be 15 grains of gold to the dollar, such a dollar should pay a dollar of contracted debt. Let me illustrate: If in 1930, A borrowed \$1,000 of B and agreed to pay it in gold of the then weight and fineness, and Congress should now reduce the gold content of the gold dollar one-third, that would mean that A would either pay B \$1,000 in gold dollars of approximately 15 grains or approximately 1,333 gold dollars of the gold content of the dollar prescribed by Congress of approximately 15 grains to the dollar. I do not believe that the court would ever hold that a man would be obliged to pay more gold dollars than he borrowed. After Congress had changed the content of the gold dollar there would be no such thing as a gold dollar

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say with such confidence that—until we make the money and the credit of the United States safe beyond peradventure no amount of economic mustard-plasters will cure our pains. That is why the R. F. C. plan has failed of full effect and that is why other federal aids to business are frustrated.

I am not given to prophecy but I am willing to hazard on this subject. From the moment that we honestly balance the Federal budget and return to an orthodox Treasury policy, money will flow here from all the world and out of every cautious domestic hoard, seeking safety and employment, and we shall have reached the end of our downward path. There will be more sound money available than all the inflationists propose to print. That is the only way to restore to our people the means to earn their daily bread and that will do it, in my opinion, with great rapidity. There is no magic in this conclusion. It is the simple arithmetic of the oldest axioms in the world.

Men who oppose this step are unwittingly opposing recovery. But men who insist on inflation are courting a greater danger. There is a way to inflate prices. It is possible to make people prefer things to money—not by increasing their confidence in things but by absolutely destroying their confidence in money so that they will "flee from the dollar" to buy things because they fear the future of money. The vast "bank money" inflation of the past two or three years has failed to frighten people to this extent for three reasons: the size of the gold reserve, their failure to understand what was going on, and the constant promise of our government that it was about to balance the budget. If you want to raise prices by destroying the federal credit, you must go further than this. You must cast actual and widespread doubt on the Government's ability to perform its promises or on its good faith in making them.

The danger of this in our country is that when you have raised a sufficient doubt, people may not scramble to buy things. If a sufficient number got the same idea at the same time, the gold reserve would vanish overnight and then this Government would be helpless to do anything for anybody. That would make prices rise instantly and like a sky-rocket. It would do as it did in Germany when it took a valise-full of paper marks to buy a sack of flour. With our present hordes of people out of employment, it would precipitate general starvation. The most enthusiastic inflationist contemplates no such result as this but they do not see that we have reached a stage where any further tinkering with fundamentals is playing with dynamite at the heart of human welfare.

I shall use the project to cut the gold content of the dollar for illustration because, while other plans are admittedly indefinite, this one is specific. There are now approximately 26 grains of gold in the dollar. If we cut that by 25% to about 20 grains, we at least have a mathematical formula. Other plans present some differences in result but, so far as their effect on prices is concerned, they all propose similar results. To whatever

extent other plans prove to be effective, all that I shall say about this plan applies to the others.

If the public foresaw the move, there would be an instant rush to redeem present money in gold and the whole project would fail because there would be no gold left in the reserve. This is certain because—if we put the plan into effect tomorrow, every man who redeems today would be 33 1/3% richer tomorrow than the man who did not, as I have shown.

But let us suppose that by some magic, we could get by this danger and that tomorrow, with four billion dollars of gold, we should have reduced the redeemable value of the dollar 25%. Will that inflate domestic prices? Not unless the move causes people to prefer things to dollars because their confidence in dollars has been destroyed. The new dollars would have more than 100% gold coverage because of reduction in the redeemable value of all the dollars now issued. It seems extremely doubtful that there would be any domestic effect to raise prices. Of course there would be a tremendous shock to confidence in such a wholesale act of outright repudiation and the feeling that it might be repeated at any time. But, passing over these conjunctures and assuming that the attempt would act as its proponents hope, there are some probable results.

The domestic prices of surplus export commodities are made abroad by world competition. To make it simple, let us suppose that a shilling is now worth 25 cents and that the Liverpool price of wheat is \$1.00 a bushel. An Englishman must spend four of his shillings to buy a bushel of wheat. But after a dollar is worth only about 20, and not 26, grains of gold, his shilling would exchange for 33 1/3 cents of the new money instead of 25 cents of the old. While it would still take four shillings to buy a bushel of wheat, when these shillings were changed into dollars to pay the American farmer, they would be \$1.33 in the new money. In other words, theoretically, the price of wheat at Liverpool, expressed in sterling, would still be four shillings, but expressed in dollars, it would increase 33 1/3%. And since the Chicago price generally follows Liverpool the argument is that the domestic price of wheat would also rise and so, theoretically, would the price of cotton and other export products.

It is wrong to suppose that this would increase the buying power of foreign countries for our surplus export commodities. It would still take four shillings to buy a bushel of wheat because the price of wheat is made abroad in shillings and by world competition. Devaluation of the dollar would not change these competitive conditions.

But there would certainly be a decrease in our buying power abroad. For example, the British price of smoked rubber sheets would remain the same in shillings and pence. But it would take 33 1/3% more of the new dollars to buy rubber. In other words, this is a proposal (without any compensation to him whatever) to increase to the American consumer, by 33 1/3% the cost of his sugar, coffee, tea, rubber, silk, imported wools, and other imported commodities, and also the price of his cotton and wheat, and all other export commodities, of which the price is made in foreign markets.

There would be an instantaneous harmful effect on our international creditor position. The world owes us upwards of \$20,000,000,000, on which the interest payment of more than one billion dollars is one of the strongest elements of our economy. Foreign debtors pay that

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McGugin *Cont'd*

of the weight and fineness of 22.23 grains to the dollar. I do not believe that the courts will ever hold that a creditor can make a debtor pay a gold dollar other than the gold dollar which is prescribed by Congress and coined by the Congress of the United States pursuant to the constitutional power vested in Congress to coin money and regulate the value thereof.

Even if the courts should hold that by contract a different gold dollar could be required for repayment than the gold dollar coined by Congress under the Constitution this would only leave a minor part of the people in their present distress. Because a minor part of our citizens must suffer under the terms of their contract, that cannot justify Government's refusing to protect itself and to protect the major portion of its citizens who made no such contracts.—*Extracts, see 5, p. 96.*



Hon. John E. Rankin

ONE of three things must happen. We are going to have currency expansion, whether it be in the manner provided in my bill (H. R. 13012), whether it be by cutting down the gold content of the dollar, or whether it be by remonetization of silver.

If we fail to secure an expansion of the currency, then we will have to have a readjustment of all public and private debts, scaling them down, extending the time for payments and reducing interest rates almost to the vanishing point.

Unless we do one of these two things, without much more delay, we are going to be swept into a saturnalia of wholesale repudiation of public and private obligations—ultimately including all district, municipal, county, State, and Government bonds. You say that will be revolution. So it will; but we must face the facts. The dollar is too high. A farmer who pays a debt now, or pays on a bond issued or contracted four years ago, is paying about four dollars for one, when measured in terms of the agricultural commodities or the land he must sell, or other raw materials, or even manufactured articles he must sell, in order to raise the money to meet these obligations.

Let me discuss the three methods of expanding the currency to which I have just referred and give you briefly my reasons for preferring the method proposed in H. R. 13012, known as the Rankin-Thomas bill.

There are two things necessary to maintain commodity prices. One of them is a sufficient volume of money and the other is a sufficient velocity of its circulation. The trouble today is not so much a shortage of volume of currency as it is stagnation of its circulation. To reduce the gold content of the dollar would undoubtedly have the effect of increasing the volume of our circulating medium,

or at least broadening the base for such an increase. If the same forces were in control of our financial system that are in control today, they could even then prevent any expansion of the amount of currency in circulation.

The remonetization of silver would even be more desirable than cutting down the gold content of the dollar, provided that its coinage should be so limited or controlled as to stabilize price levels when they reach the 1926 level and thereby prevent those abnormal fluctuations that have always proved disastrous to the masses of the people in the end. Such a provision is incorporated in H. R. 13012, which I shall discuss next.

Another trouble of remonetization of silver is that some of its chief sponsors insist on its being done through an international conference which would probably take months, or even years. The country cannot wait. We are sweeping on to disaster. Something must be done without delay! For me it is the first order of business from now on, whether in this Congress or the next.

The third method, and the one which I propose, is to expand the currency by issuing United States notes against the gold we now have, and putting that money into circulation by paying the running expenses of the Government with it—everything from the salary of the President to that of the rural letter carrier in the most remote precinct, soldiers' compensation, loans to farmers, and other transactions that take money out of the Treasury to be paid in these notes. That would put this money in circulation at once and start commodity prices up. It would also eliminate the necessity for increasing taxes at this or the next session of Congress.

We do not propose to issue an unlimited quantity of these notes, but to continue issuing them and putting them in circulation until commodity prices reach the 1926 level. If there should be a tendency toward an abnormal inflation, as soon as this price level rises to 103, then we provide for the sale of bonds to call in a sufficient amount of these notes to check the advance and prevent what the financiers call skyrocketing of prices. If values again decline, as soon as the price level reaches 97, we provide for the issuance of more notes and the purchase of bonds to put them in circulation until the price level again advances to 100. In that way we raise commodity prices back to what they were in 1926 and stabilize them within a 6 per cent margin ranging from 97 to 103.

You will hear this denounced by the representatives of Wall Street as "fiat money." People who have their money invested in tax-exempt securities or have their wealth in cash and are hoarding it in their vaults, snugly conscious of the fact that it has risen in purchasing power 300 or 400 per cent, do not want any expansion, because they do not want commodity prices to rise. Their holdings would not buy so much if normal conditions were restored. Like Shylock of old, they prefer to exact the last pound of flesh. They and their spokesmen will call these notes "fiat money," when they know that they are not fiat money but good and lawful money of the United States and worth 100 cents on the dollar.

Under the present Federal reserve act we are required to retain a gold reserve behind each note of only 40 per cent. We have more than \$4,000,000,000 worth of gold—a sufficient amount to have outstanding currency of \$10,000,000,000 when as a matter of fact, at the present time we have only about \$5,600,000,000 in outstanding currency, practically all of which is being hoarded by the

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Baruch Cont'd

charge in enough of their money to buy 26 grains of gold to the dollar or the equivalent of that in goods. After a 25% devaluation they would pay only enough to buy 20 grains of gold. For instance, a present debt charge of 25 francs would be reduced to less than 19 francs. In other words, this proposal would certainly and instantly reduce all debt payments to us by 25%. But our citizens owe billions abroad. If we suppose that \$1.00 will now buy 4 shillings with which to pay an obligation due in English currency—instantly after a 25% devaluation—it will take \$1.33 to pay the same debt. In other words, this proposal would certainly and instantly increase the cost of American debts due in foreign currencies by 33 1/3%.

In the case of American manufactures where the price is made in this country (as distinguished from export commodities where the price is made abroad), there is an apparent benefit in export trade. If an American plow is made to sell to the Argentine for \$100 and it now requires four hundred pesos to pay for it in New York, then after a 25% devaluation it will take 300 pesos and the Argentine can buy more plows. Why is this true? Starting from the raw material, the bulk of cost of that plow is the wages of labor and the reason it can be sold for fewer pesos is that such devaluation has an insidious but instant effect to cut those wages 25%. To whatever degree inflation by any plan increases export trade, it does so by the sacrifice of our labor conditions and the dissipation overseas of American assets. A country can continue this sort of thing for only a limited time. I cite the case of Russia, which has recently conscripted thousands of working men to the northern forests for the purpose of producing lumber to sell abroad to create export credit out of the very lives of her people.

But the effect of devaluation to reduce our creditor position is urged as relief to foreign customers to permit them to buy more of our goods. It is true that a creditor nation (especially one who declines imports) cannot expect continued vast export expansion. For ten years we neglected this fundamental and staged a fantastic boom on the basis of an increased export financed entirely by unwise foreign loans. The present argument for increasing export by relieving burdens on debtors at the expense of American labor is a repetition of the same blind folly in a different guise. It would be far better to cultivate our domestic market by increasing the buying power of our own people.

So much for the wholly destructive effect of inflation on our international relations. Let us examine the effect at home. The producers of surplus export commodities would probably receive a higher price in a lower dollar and the price of imported products—principally food, clothing and other necessities—would rise. But the price of other things would not rise nearly so fast nor so far. Indeed, it is not certain that they would rise at all, except in the panic event I have discussed. When England went off the gold standard and the pound declined more than 25%, prices rose very little and promptly declined again and after nearly two years there is no market effect on domestic prices. Even suppose prices went up exactly

as the inflationists hope, who would be affected? Only a relatively small part would at once feel any benefit. Some—but by no means all—farmers would get a benefit and also some manufacturers. But wages are fixed by contract and not in the open market. They would rise slowly if at all. The laborer's dollar, which yesterday bought 26 gold grains' worth of necessities, would today buy only 20 grains' worth. Labor, which has already suffered a 40% to 50% reduction in income, would suddenly find itself the victim of a new and greater cut—not by its employers, but by the very government upon which it relies for protection. And not labor alone. The same thing would happen to every man who works for a salary, every professional man and the whole "white collar" class and also to every insurance policy, savings and bank account, investment, trust fund and endowment of colleges, hospitals and other public institutions. If a man has a \$3,000 life insurance policy which promises his widow about 78,000 grains of gold, instantly about \$750 of this protection would be whisked away as effectively as though purloined from his widow's pocketbook.

It is said that the effect would be to lighten debt and taxes by 25%. But, with the exception of a very limited class, the effect would be greatly to increase the burden of both. Thus, while the farmer might be able to pay taxes with fewer pounds of wheat, the wage or salary earner would have to pay a greater share of his wages for necessities and would have less to pay rent, debts and taxes.

These things are true of every one of the inflation plans to whatever extent they prove effective. They pass a plane of cleavage through our population and oppose class against class on the most vital issue of present human existence—the wherewithal to live and support a family. On one side of that plane are the beneficiaries—chiefly foreign nations (for whom alone is the benefit certain) and the producers of some export products. But on the other side are all those who work for wages and salaries, all pensioners, public servants and employees, professional men and all those who still retain any money or fixed-income securities from the wreckage of this four years of national blundering.—*Extracis, see 4, p. 96.*

Marvin S. Rathburn

If inflation be defined as a condition in which there is more credit and currency than is needed to carry on business—we have it now.

Money in circulation is about 750 million dollars more than at the boom peak in 1928 and 1929. Federal Reserve Bank Credit is up by about the same amount.

But bank loans have fallen by 14 billion dollars.

Business activity is about half what it was three years ago.

We have the makings of inflation but deflation continues.

The gas has been running out of the business balloon faster than it has been pumped in.

Expansion of both basic credit and money in circulation having so far failed to become effective, the idea is becoming popular of taking a lot more of the same medicine, but

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Rankin Cont'd

large banks and wealthy individuals, and very little of it is in circulation among the people. Start issuing these new notes and putting them in circulation and you will see commodity prices begin to rise. Not only will wheat, corn, and cotton advance in value, but land values will return, labor will advance in price, houses and other properties, whose values have virtually disappeared, will come back. Then you will see this hoarded money come out and begin to seek legitimate investments and this panic will disappear with a swiftness that will thrill the world.

The argument has been made time and time again that this is a world condition, and that expanding the currency in the United States would not restore the purchasing power of the people of other countries, and therefore would not relieve the situation. That argument was ably answered a year or two ago by T. B. McCauley, president of the Sun Life Insurance Co. of Canada, when he pointed out the fact that whereas formerly London was the money market and gold was the standard, today the United States is the money market, whether it be New York or Washington, and the standard is the American dollar.

Prices throughout the world are today measured in terms of the American dollar. Even the currencies of other countries are so measured. The value of the pounds of Great Britain, the francs of France, the rubles of Russia, the yens of the Orient, the pesos of Spanish America, are all measured in terms of the American dollar.

Therefore, when we expand the currency and raise commodity prices in America, it will have a corresponding effect on commodity prices throughout the world. It will not only restore the purchasing power of the American people, but it will automatically restore the purchasing power of our customers in every foreign land.

There appeared at the Capitol recently a Wall Street international banker, Mr. Bernard N. Baruch, one of the three wise men from the East. The other two are Ogden L. Mills and Eugene Meyer. If the policies of these three were carried out indefinitely, this panic would last for a thousand years. There is absolutely no hope of relief in anything that anyone of them advocates. But, on the other hand, the very policies for which they stand are responsible for the present conditions of wreck and ruin.

First Mr. Baruch started his drive against currency expansion with the old camouflage cry of "Balance the Budget!"

It is utterly impossible to balance this Budget and keep it balanced on the present price levels. If every pound of cotton grown in the United States last year had been sold on the market last night it would have brought a little less than \$360,000,000. If every grain of wheat grown in the United States last year had been sold last night it would have brought considerably less than \$400,000,000. If every grain of corn grown in this country last year had been sold last night it would have brought less than \$700,000,000. All of them put together, the three principal crops of the country on which our balance of trade depends, would have brought less than \$1,400,-

000,000. Yet we have a National Budget alone of more than \$4,000,000,000, to say nothing of the budgets of the States, counties, and municipalities. You can never balance this Budget and keep it balanced until the value of these three principal crops exceeds the national expenditures. At the prices prevailing in 1920 they would have brought approximately \$8,000,000,000; at the prices prevailing in 1926 they would have brought \$5,600,000,000, whereas now they bring the pitiful sum of \$1,400,000,000. What is wrong with the country? We are in a money panic. Let me call your attention to a statement made by a great financier. He said that when Rome fell a few people owned the Roman Empire. They had gathered unto themselves the wealth of Europe. Gold was the money of all those countries. They hoarded it. They charged as high as 48 and 50 per cent interest. Today, when the farmer pays his taxes or pays his interest, measured in terms of his own commodities, he is paying 25 to 45 per cent interest. What was the result? People were driven to barter and trade, international trade fell off, commerce died, poverty, depression, and stagnation prevailed, Rome fell, and Europe lapsed into an economic lethargy that lasted for a thousand years. It was broken only by the discovery of America with its new and apparently unlimited supplies of gold. When that gold was added to the circulating medium of the world, Europe awoke from her lethargy of centuries and leaped forward into an era of prosperity, the like of which mankind had scarcely dreamed.

We are now at the point where Europe was at the time of the fall of the Roman Empire. We have reached the end of gold. We have exhausted every field. We have prospected every mine. We have searched every territory. There are no more fields to be brought in. The per capita supply of gold is diminishing day by day. Every country, except about three, has gone off the gold standard. South Africa, which produces 55 per cent of the world's gold, suspended the gold standard less than three weeks ago, and since that time there has been a crisis in the Parliament of Holland as a result. While we have nearly one-half of the monetary gold of the world, the large financial interests of this country, who profit by high money and cheap commodities, are blocking every move to expand our currency and put that gold to work for humanity.

We have a sufficient amount of gold to issue \$4,000,000,000 of extra money, United States notes or Federal Reserve notes, and if we will do it and put that money into circulation this panic will be broken over night. In fact, it will not take that much. When we begin to expand in earnest, this hoarded money will come out and seek investments, and prosperity will return.—*Extracts, see 6, p. 96.*

G. Bowie Chipman

FROM 1925 to 1929, we had a constantly increasing series of formulas by which to get rich quick without working, all based, largely on the mathematical activities of the college economic mind. First we started with a gentleman who had a theory that the price

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this time primarily in the form of money—slathers of it. People still stubbornly prefer money to goods.

Well, then, say the currency inflationists, give them so much money that they will be sick of it. Or else debase it by short-weighting the gold dollar with the same results.

They confuse money with property, and the medium of exchange with exchange itself. They insist that superabundance of the medium of exchange breeds an abundance of normal trade. They identify business intoxication with vitality, and a debauch of reckless buying and selling with the normal activity of fair and equitable exchange arising from a need of goods, balanced prices, and confidence that values while stored in money will not depreciate. They ignore the warning of all economic history that the wages of inflation is death.

For a while the short-dollar cure for deflation was quite the rage. It has faded away as its advocates have begun to reflect on the absurdity of a country that has so much gold that it doesn't know what to do with it—except in panic moments—making it less valuable. Moreover, the theory of a world scarcity of gold is going into an eclipse. The world never had so much gold as now, and yet it never made less money use of it.

The printing press begins to look like a more rational instrument of inflation than increasing the number of gold dollars by making them lighter.

To be sure, the plan of reducing the amount of gold in the dollar has a certain simplicity and thoroughness about it. It compels the creditor to accept less in payment of a debt while nominally receiving just what he lent. But it smacks of trickiness, manipulation and expropriation. The same end can be effected by drowning the country in cash, without the appearance of guile and without monkeying with the size of the money standard. A business man who substitutes a 30-inch yardstick for one of 36 inches is considered a crook, but it is perfectly legitimate to boost the price of the cloth. Theoretically, that is what you do, wholesale, if you inflate money to a large degree. If the supply of money in relation to the need of it is too small, increasing the supply is not only legitimate but ethical. That and the reserve are supposed to be the most blessed function of the Federal Reserve System.

Notwithstanding that the facts appear to deny the theory of insufficient money, printing presses are being tuned up, and it is not unlikely, unless there is soon a pronounced improvement in business, that the coming special session of Congress will witness a determined drive to give us inflation of the currency, under whatever guise, of sufficient proportions to make it "take" unless the country is constitutionally immune to inflation. Congress, rendered desperate by demands for economy and reduced taxation on the one hand, and clamor for unemployment relief and business rescue on the other, may turn to currency expansion as the only resort and endeavor to give us an orgy of spending and wasting as a cure for declining wealth with nothing to spend.

What do the inflationists seek? They seek, first, to

alleviate the huge burden of debt by making it payable in cheaper money—in money of about the same purchasing power that prevailed when the debt was created. This would be automatically accomplished by substituting a short standard dollar (that is, the gold dollar) for a full weight dollar. In the second place what they want is rising prices as a stimulant to buying and business activity. According to the venerable theory that prices are governed by the volume of money, a flood of money would mean a high tide of prices. In proportion as prices should thus rise the debt burden would be peeled off in terms of goods and services—and both objectives would be attained: debts would be slashed, business would be quickened, and unemployment reduced.

A third reason given for currency inflation is that it is necessary not only to business recovery, but that it is inevitable, in all probability, in order to prevent further economic degeneration and, possibly, general bankruptcy and business breakdown before the upward turn can be made.

It is argued that once deflation bites deep it grows by what it feeds upon and will go to incredible depths—virtually to general bankruptcy before it stops, if not checked by some "natural" accident or by artificial means. The vicious downward spiral may be thus described: Everybody retrenches, then buying power is reduced; everybody, therefore, retrenches again, and buying power is further curtailed. And around and around the downward spiral, with both production and consumption dwindling, always dwindling. Everybody is aiming at attaining a balance of cash on the income side; not by expanding production and sales, but by reducing purchases and payrolls. The general objective being to get cash rather than to do business, the sources of cash are slowly dried up, and prices go ever downward.

The spell may be broken by deliberate or unavoidable expansion of the circulating medium to such a point that the fall in the commodity value of money—its purchasing power—is so great and obvious that it becomes the part of prudence to transfer wealth from storage in depreciating money to storage in appreciating goods.

At heart, virtually the whole country is attracted by the idea that business recovery can be brought about by some sort of inflation. Last spring it was quite generally believed that inflation of Federal Reserve credit would serve that purpose. Most people have lost confidence in that way, but Washington insists that the method is good and that it has provided the beginning of recovery, although positive controllable business results are not yet in evidence.

Inflationary interest has turned to the expansion of the volume of money; thereby cheapening money and raising the level of prices. This is proposed in various ways, including the remonetization of silver in full or in some measure. Inflationists concede that nine-tenths of American business is done by checks, that is largely by bank credit. But credit, they say, is torpid, and that finally it is largely influenced by the volume of legal tender money. Fill the banks with irreducible cash and it will turn into multiplied credit, they say. They are all fed up on the elastic Federal Reserve currency. What they want is so much permanent or long-life money that the banks will grow weary of piling up reserves of good but perfectly idle cash, will be able to defy all runs, and will look for opportunities to lend instead of avenues of escape from borrowers. With plenty of cash and plenty of credit,

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of pig iron was an index as to what the future had in store for us, then the chart reader and the graph expert became increasingly numerous and the different little peaks and valleys gave the forecast of the future, and then with the speculative volume, starting first in real estate in Florida and then extending to agricultural lands, and finally to the stock market in New York, we were in the end taught by noted economists that instalment buying and the mortgaging of our future was a perfectly healthy thing to do for anything which might, at that time, meet our fancy. At the peak of it all, we were told that it was impossible to figure the value of anything because of imponderables. Just what was meant by imponderables I have never known, but it was something which could not be calculated and had great value. Then came the crash, and the last three years we all very painfully know about. After three years of severe liquidation, we are told there is no hope for the future because of technocracy, another child of the economic brain.

Prior to the World War gold was the workable basis for the credit then outstanding, but the world's debts were so much less than they are today that we cannot use that yardstick now for proper measurement. Assuming that the figures are correct and that the debt of the world today is \$750,000,000,000, and the debt of this country—and by that I mean debts of all character—is \$200,000,000,000, and that the farm mortgages alone in this country are \$9,500,000,000, upon which there is an interest charge of \$600,000,000 per annum, it takes no mental activity to realize that the gold in this country and in the world, notwithstanding the increase in the production of gold which has been taking place in the past three years, is insufficient to support this structure. If the debts of the world, without interest from now on, were to be paid at the rate of \$1,000 per minute, it would require 1,411 years to liquidate; and if the economist who prior to 1929 used the term that the so-called gold dollar was a dishonest dollar because its purchasing power was only slightly above 60 cents in the United States, although it was supposed to be worth 100 cents, should apply the same rule today, we would find that the purchasing power of the dollar is equivalent to 160 cents instead of 100 cents.

Therefore, because of this increase in the value of the dollar, it is now impossible for the debtor to pay to the creditor his obligations, because if in 1927 he contracted to pay the sum of \$10,000, today, in either labor, farm products, or whatever it may be he uses as a medium of payment, his debt has increased to about \$16,500, and he did not contract to pay that sum of money, but only the original amount. It is impossible for him to see why he should pay this increased amount, and it is not correct to assume that the creditor should expect it; but the canceling of contracts or the scaling down of debts is a dangerous method to pursue, because who is to be the judge as to what the reduction should be or why or when a contract should be canceled? It therefore seems to me that the dollar should be stabilized, not to have an abnormal purchasing power in times of depression or a lessening purchasing power in times of prosperity but should remain

at a stabilized value; and I feel that the whole world is asking this question, whether it applies to our money or to the money of any other nation, because the same condition exists the world over.

I feel that soon the demand will be made to correct this condition, and that the only way to do it will be by adding silver to the money basis. There is an impression that there are huge stores of silver which would come out if the price advanced. For 438 years the production of silver to gold has been less than 14 to 1. At the present time it is about 8 to 1. The United States coinage ratio is 16 to 1. If all the silver in the world available for money were to be coined at the United States ratio, there would be fewer dollars in silver than dollars in gold. England made gold the unit of value in 1816, but the rest of the western world continued the use of the two metals until Germany went on a gold basis after the war of 1870, when she collected \$1,000,000,000 from France in gold, and at that time the amount collected by Germany was almost one-third of the monetary gold in the world. The United States followed the example of England and Germany in 1873 and the Latin Union three years later.

For all the time of which there is any record up to the time the United States made 22.23 grains of gold the unit of value, the commercial price of silver in London never reached a price ratio of 16 to 1, except in the year 1812 and 1813, when it was 16.11 and 16.25, respectively, and that was before even England had declared for the single unit of value. As illustrating that all changes in the price are the result of legislation and have no relation to production, it may be cited that in 1850 the United States produced sixty-two times as much gold as silver by weight, but the price of silver remained unchanged. Just before we changed to a gold basis in 1873 the production ratio for the world was 8.7 silver to 1 of gold. In 1872 it was 12 and 13 to 1, and still we hear many people say the United States went to a gold basis because of the flood of silver. It is not the amount of metal which is produced that is important as much as the ratio production as between the two metals.

Today we are measuring all the values of the western world with approximately \$11,600,000,000 of gold, with the result that the price of gold, as measured by labor and commodities, has increased and is appreciating and has reached the purchasing power which, as I stated, is out of proportion to the contract originally entered into by the borrower. If we added silver to the basis of our currency the purchasing power of more than half the world would be immediately increased, and that is the purchasing power of the Orient, China, and the South American countries, all of which have always been good customers of ours, and our dollar would be reduced in value to a basis which would permit these countries to more equitably trade with us. Our exports to the western world would be small in proportion to exports to the so-called silver countries of the world if we would give them a means by which they could, and would be glad to trade with us. I believe this would give us an increase in all commodities and all products, manufactured or otherwise, in this country and in the world, and I believe it would be the turning point of this world depression.

Believing that this or some other plan will be proposed by which conditions between the debtor and creditor will be improved, not only in this country, but throughout the entire world, I cannot but feel that security values are low. There is a constant accumulation going on in secur-

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Rathburn *Cont'd*

prices, they figure, are bound to rise, and with them business, while the debt burden will shrink. But all are agreed that inflation should stop when the price levels of 1925-29 are reached, the levels at which much of the outstanding debt was incurred. The debtor would repay in the commodity and service values at which he borrowed, instead of twice or three or four times as much.

The channel of direct money inflation would be governmental disbursements, except in the case of free coinage of silver, when the owner of the silver bullion would be the original distributor. Take the Jeff Busby bill for example. It proposes to put out, in successive steps of a billion dollars each, three billions of Federal Reserve notes. Instead of the banks being the borrower the U. S. Government would fill that role. The notes would be issued on the collateral of three billion dollars worth of bonds and backed by 25 per cent of gold deposited by the Reserve Banks with the Federal Reserve agents. When the Treasury Department got the money it would use it instead of public bond issues to pay current government obligations and deficits. The bonds would run for ten years and would not be called in the meantime unless the price level ascended to 80 per cent of the average between 1921 and 1929. The first two installments of bonds and cash would be thirty days apart. The third billion would not be issued at all if the price level should reach 90 per cent within 180 days after the second installment was put out.

Thus two billion dollars of shiny new money would be disbursed within sixty days and possibly another billion within eight months of the passage of the bill. Another proposed way of getting out new money is through prepayment of the soldiers' bonus, amounting to \$2,400,000,000. More ambitious plans call for paper money in some form—Federal Reserve notes or straight Treasury notes—flat money, pure and simple, to be expent in colossal amounts on public works, unemployment relief, etc. Economists would favor the public works outlet, for the money would then create employment and goods instantly, instead of trusting to indirect acceleration of business activity. The latter might not happen at all except for a brief period, and then mostly in retail trade.

While any particular amount of currency expansion might not result in inflation—rise of prices and renewal of business activity—scarcely anyone disputes the proposition that persistently increasing the quantity of money eventually elevates prices.

There is at present 5,600 million dollars of money in so-called circulation—that is, money outside of the U. S. Treasury and the Federal Reserve Banks. But it is estimated that at least 2,000 million dollars is lost, destroyed, hoarded or in foreign countries; 700 million dollars is always in bank vaults. The Federal Reserve Bulletin reckons that the money in active use is not more than 3 billions. Adding as much more new money to circulation within a short time will, it is claimed by inflationists, result in discontinuance of hoarding, which will greatly improve the cash position of the banks; and an expansion of purchasing.

There is no assurance that it would. Money in circulation now is about the same in amount as it was at the peak of the post-war boom in 1920 and about a thousand millions more than the average during the 1922-1929 boom—and yet business gets worse and worse and commodity prices fall lower and lower. Further inflation might not "take" because of adverse factors, both at home and abroad. It might require world-wide co-operation to put it over in effect. It might even result in further business decline and demoralization and renewed panic because of the fears it might engender. Or the new money might slip, through a brief period of buying and paying, into the banks to keep company with the inert piles of cash already there. A mountain of money that does not turn over is no better than a little that whirls around.

It is certain, however, that inflation would "take" if it came as the result of inability to balance the national budget. Continued borrowing would eventually dry up the market for bonds. No government has ever yet quit because it couldn't borrow. With the printing presses running steadily to make money for government disbursements, a flight from the dollar would be inevitable; prices would go up and up. The higher they went the more money the government would have to put out to pay its charges. Gold would be hoarded and we would be forced off the gold standard. Each new issue would further depreciate the value of money, and the experience of all history would portend the final evaporation of its purchasing power. A period of feverish activity in business and recklessness in spending, as the only prudent course, would be followed by a cessation of trade, except in the form of barter. Germany affords the classic illustration. Her entire system of exchange was wrecked as well as the whole investment fabric of the nation. Debts were wiped out, with them went all working capital. Industrial paralysis ceased, unemployment became universal, and the country had in a business, working capital and financial sense to start all over again and rebuild from the ground up. France went three-quarters of the way to ruin, but stopped before her whole economic system collapsed.

Although England terribly depreciated the pound by going off the gold standard in 1931 inflation of domestic prices has not followed. That is because expansion of the currency has not been permitted. The objective was to inflate import prices, and that has been accomplished except as other nations have also abandoned the gold standard. Inflation "worked" in Germany and France after the war because the manufacture of money was continuous and voluminous; and because in France there was an enormous job of physical reconstruction and in both countries of replenishment of stocks and of satisfaction of long repressed requirements.

In Germany the investor class, in the sense of lenders through ownership of bonds, mortgages and preferred stocks, was eradicated for good and all—in France three-fourths amputated. Owners of common stocks came out on top, as they became in effect the debt free possessors of all encumbered properties, even though for a period the astronomical values of their shares wouldn't yield them enough to buy a lump of sugar.

If inflation were to proceed as far in this country as in Germany similar results would follow in the end except as they might be modified to the large extent in which securities and mortgages are here payable in gold. In Germany and France, as well as in England, they were payable in the monetary units of the respective countries.

Continued on page 88

Chipman *Cont'd*

ities of our best managed and strongest financial companies, based on the idea that the stock market is at least a year in advance of business and that if business is going to turn for the better in 1934 or 1935 the stock market will start to discount it in 1913.—*Extracts, see 8, p. 96*



Hon. Wright Patman

WE want this country to get back to prosperity and we have to give the people an opportunity to pay their debts with goods, commodities, stocks, and bonds that are priced somewhat upon the same basis as they were when these debts were contracted. Let us have inflation, if you want to call it inflation, although that is a bad word. The proper word is expansion of the currency, and if you will expand the currency, you will start this country back to where it will be some inducement to purchase goods. There is no inducement now. If you will cheapen the dollar and cause goods to rise in price, every merchant will get into the market, because he wants to buy as cheaply as he can, and as everybody, including customers, gets into the market our country will come back, and it can not come back unless some system is adopted that will cheapen the dollar. Suppose you do cheapen it, what will it do? Suppose you get paid in these so-called cheapened dollars, instead of the dollars you now get, can not you take that dollar and buy just as much rent with it, can not you pay just as much in debts with it, can not you pay just as much in taxes with it, can not you buy just as much electricity with it and gas and water and everything else? Certainly you can—everything except a few commodities. That is the only way on earth by which you can reduce taxes and debts in this country. We have got to reduce the high purchasing power of the dollar, and until you do that this country can not come back. Instead of adopting the plan proposed in the Glass bill to give a few large bankers a billion-dollar franchise that is permanent, instead of adopting the President's plan of putting everybody into speedy bankruptcy in order that the large creditors may soon distribute their assets, let us invoke some plan of expanding the currency so everybody will have a chance.—*Extracts, see 9, p. 96.*

Rathburn *Cont'd*

But as gold would be unprocurable the matter would probably become a problem for the equity courts.

The question is often raised as to what would be the effect of extreme inflation on banks and insurance companies. In general it appears that inflation would not affect the banks as loan and deposit institutions. Money would flow in and out with the rush of a tidal rip but it would always be dollars to the bank both ways, no matter how worthless. As to their investments they would be in the same position as any individual. In a bookkeeping way, although their bonds and mortgages would be practically worthless they would appear on the books at the purchase prices, and they would be matured in the same prices. The debtor would be enriched in substantial wealth but the bank would neither lose nor gain in money terms. The bank's common stocks portfolio would gain in book value and also in permanent value.

The situation would be much the same with insurance companies. The general rule is that while inflation is working the creditor loses and the debtor gains.

Aside from his position as debtor or creditor, the producer of substantial goods thrives while inflation is inflating. Real wealth is in demand and he can name his own price. As a debtor, he repays good money in cheap money. Maturing and callable bonds and mortgages can be paid off advantageously.

Experience shows that wages and salaries lag behind rises in prices of goods, and even when they reach colossal figures they are practically insufficient.

Anybody with cash in the bank would be out of luck. His wisest course would be to check it out as fast as he deposited it. The surest way for the savings depositor, then, to save, is to quit saving money and spend it for real estate or goods. The only course under continuous monetary inflation for any individual is to get rid of his money for something substantial. The fastest spender is, then, the best saver.

The owners of mortgages would be keen to foreclosure at the earliest opportunity. They would recall that delay might mean that a fat goose would pay off a \$25,000 farm mortgage—if inflation continued.

Real estate prices and building would boom.

In general there would be a mad flight from money to substance. Whoever buys tomorrow what he might have bought today will lose. Business would be a riot of activity. Factories would hum and jobs would be plentiful even though the sweating workers starved with fat rolls of currency in their pockets.—*Extracts, see 7, p. 96.*

The 72nd Congress « « Now in Session

Duration—March 4, 1931–March 4, 1933. First Session Convened Dec. 7, 1931, Recessed from Dec. 22, 1931 to Jan. 4, 1932.

Adjourned—July 16, 1932. Second Session Convened Dec. 5, 1932, ends March 4, 1933

In the Senate

Membership
Total—96

48 Republicans

1 Farmer-Labor

47 Democrats

Presiding Officer

President: Charles Curtis, R.

Vice-President of the United States

Floor Leaders

Majority Leader

James E. Watson, Ind., R.

Minority Leader

Joseph T. Robinson, Ark., D.

In the House

Membership
Total—435

209 Republicans

1 Farmer-Labor

6 Vacancies

219 Democrats

Presiding Officer

Speaker: John N. Garner, D.

Member of the House from Texas

Floor Leaders

Majority Leader

Henry T. Rainey, Ill., D.

Minority Leader

Bertrand H. Snell, N. Y., R.

The Month in Congress—

Political Developments

ON February 21, with eleven days of the session remaining, Congress had passed but two major pieces of legislation—the Philippine Independence bill and the resolution for repeal of the Eighteenth Amendment to the Constitution—exclusive of three appropriation bills.

The Glass bill for banking reform had passed the Senate, but was held up in the House Committee on Banking and Currency.

The Bankruptcy reform bill had passed the House and had been reported to the Senate in amended form.

The Domestic Allotment bill had passed the House and had been reported, amended, to the Senate.

Of these three bills, the Bankruptcy bill seems at this writing to be the only one with a chance of final passage.

No real action has been taken and none is looked for by leaders of the Senate and House on:

Governmental economy (other than approximately 10 per cent reductions in those departmental appropriation bills which are finally passed), veterans' compensation, tariff, taxation to balance the budget or employment relief.

Consequently, all eyes are turned on the new Administration which will take over control of the Government's affairs on March 4.

It is generally accepted that Franklin D. Roosevelt, the new President, will call Congress into extraordinary session sometime between April 15 and 20 and that when it meets, if not before, he will announce definitely what he feels should be accomplished in the way of immediate legislation.

Perhaps he will make an announcement of this sort in his inaugural address on March 4, but recent reports are to the effect that his inaugural address will be brief and it may be that he will withhold the announcement of

specific plans until Congress convenes. No authoritative statement has come from Governor Roosevelt as to his intentions in this respect.

Consequently, any attempts at predicting the program for the new Congress would be futile at this time.

In the April number of the DIGEST a complete review of the status of all important legislation at the end of the current session will be given.

All bills which do not pass at this session will have to be reintroduced, but the fact that certain bills have made progress by being reported from committee or by being passed by one or the other house will have a bearing on the promptness with which they may be considered by the new Congress.

Progress Made by Major Legislation

From January 21st to February 21st, 1933

Agriculture

THE Domestic Allotment bill, (H. R. 13991) which passed the House on January 12 and which was covered in the DIGEST for February, was reported to the Senate from the Committee on Agriculture and Forestry, by Senator Lynn J. Frazier, N. D., R., on February 20.

The Senate Committee so amended the bill, however, as to render it unacceptable to the farm groups who sponsored it in the House. The bill was placed on the Senate calendar and, although it may be passed by the

Senate, the Senate amendments will be so strongly opposed in the House that its final passage seems impossible.

The House bill provided that the aids in the bill should apply to wheat, cotton, tobacco, hogs, rice, butterfat and peanuts. The Senate Committee limited the application of the bill to wheat and cotton. In his report to the Senate, Senator Frazier described the changes made in the bill by the Senate Committee as follows:

"It will be noted that the bill as here reported differs in a number of respects from the bill as it passed the House.

"It is recognized that the measure is experimental in that it operates upon principles which, though believed to be sound, have not been tried before in Federal legislation. In view of this the committee believes that it is desirable to put the measure into operation in a manner involving a minimum of complexity. Later, if experience warrants it, the measure may be enlarged and extended. It seems to the committee that the bill as it passed the House was too complicated and included too many commodities to permit of its successful operation, especially for the present year, and the amendments made by the committee have for their purpose, primarily, the simplification of the bill. The most important of the amendments have the following effects:

"(1) The operation of the measure is confined to wheat and cotton. While it would be desirable to extend the direct benefits provided by the bill to producers of all commodities, it is not believed practicable to attempt to do so in view of its experimental character, the shortness of time, and the administrative difficulties which would be involved. It is believed necessary to limit the scope of the measure in order to give it a fair chance to operate successfully.

"(2) The acreage control provisions are eliminated. The reasons for this are—

"First, attempts to limit production by the control of acreage as provided in the House bill would be in large part ineffective even if a substantial number of farmers agreed to reduce acreage. Acreage planted is only in part a determining factor of total production. Weather and growing conditions generally, beyond the farmer's control, cause large variations in total output. Under the House provision it would have been possible, especially in important cotton-producing sections, to increase the yield per acre, substantially if not fully offsetting the reduction in acreage.

"Second, the administration of the acreage control features, in the opinion of this committee, would have resulted in serious complications and possibly unsurmountable difficulties. The farmer would have been subjected to restrictions and regulations of such a character as to constitute a serious handicap to the administration of the plan as a whole. It is deemed advisable, therefore, to leave it to the individual farmer to determine the adjustments in production on his farm.

"Third, it is believed that the bill as amended will result in a substantial measure of production control even without the requirements as to acreage reductions. Distinction should be made between production control by avoiding stimulation and production and production control through uniform curtailment of acreage. The increased returns under this measure will accrue to the farmer through benefit payments only on that portion of his output which represents his share of domestic requirements. It appears improbable, therefore, that the elimination of the acreage curtailment feature of the House bill

will result in stimulation of total output, especially under present conditions of extremely low prices of farm products in relation to the farmers' overhead costs.

"(3) Benefits are to be paid upon the basis of the crop produced rather than, as in the House bill, upon the amounts marketed, and certificates will be issued after harvesting. This will make for more orderly marketing and prevent the producer who is unable readily to market his commodity from suffering a disadvantage. In order not to eliminate the incentive to market, however, 25 per cent of the benefit payment will be withheld until the farmer has marketed an amount of his crop equal to that part upon which his certificate is issued.

"(4) The basis for determining the amount of benefits paid is simplified. The 'fair exchange value' specified in the House bill was based on the policy of maintaining for the future the same relationship between farm prices and the prices of industrial articles the farmer buys that existed in the pre-war period. The committee has substituted the simpler basis of the average price received in the United States by producers of the commodity at local markets during the base period from August, 1909, to July, 1914. The element of relationship to prices of industrial commodities has been eliminated.

"(5) The producer will realize upon his certificate at any time within a year after issuance. Under the House bill the certificate was to be issued in two equal parts, and the producer would have had to wait one month before realizing on one part and six months longer before realizing on the second part.

"(6) The initial marketing period is eliminated. This is required by reason of the change which makes benefits no longer payable upon actual marketing but upon the harvested crop.

"(7) The provision for a duty on animal, marine, and vegetable oils and fats is eliminated. This action was not taken because the committee is definitely opposed to it, but because it was believed unwise to approve it in its present form without further consideration. It was inserted on the floor of the House, not being in the bill as reported from the House committee."

Appropriations

ON February 21, eleven of the twelve supply bills—the ten regular annual appropriation bills and the two deficiency appropriation bills—due to be passed at the current session of Congress, had been reported by the House Committee on Appropriations. This left only the Second Deficiency bill to come out of that Committee. This measure, which carries various odds and ends left out of the other bills, is usually held back until the last few days of the session.

The last of the regular supply bills—the Navy Department appropriation bill, was reported to the House on February 20. Its prompt passage was expected. All the preceding bills have been passed by the House.

Of these, four have passed both the House and Senate. They were the Treasury and Post Office bill, the Interior Department bill, the Department of Agriculture bill and the First Deficiency bill. President Hoover signed the first three but, on January 24, vetoed the First Deficiency

bill because of a provision it contained authorizing a joint committee of Congress to make final decision as to whether tax refunds of over \$20,000 should be made. In his veto message the President stated that he had been advised by the Attorney General that that provision was unconstitutional. Of the remainder of the supply bills three have passed the Senate and are in Conference.

Whether they will all be passed by the Senate is still problematical. The chances are that those over which there is comparatively little controversy will be put through in the closing days, while others will be held over for the extra session.

Banking

THE Glass banking bill, amending the existing banking laws by permitting branch banking, making changes in the Federal Reserve Act and requiring national banks to divorce affiliates, passed the Senate on January 25. It was still before the House Committee on Banking and Currency on February 21 with no date set for its consideration by that committee. Its final passage at this session of Congress seems doubtful.

Bankruptcy

ON January 30 the House Passed the Sumners Bankruptcy bill. (H. R. 14359). The House bill was rewritten by the Senate Committee on the Judiciary and reported to the Senate on January 28 as S. 5551. A complete description of S. 5551 is contained in the following report from the Committee on the Judiciary written by Senator Daniel O. Hastings, Del., R., Chairman of the subcommittee which framed the Senate bill:

"After carefully considering the House bill and the suggestions and criticisms that had been made with respect to it, and after receiving a report from the Interstate Commerce Commission with regard to it, the House bill was rewritten and introduced in the Senate.

"In the meantime Senator Robinson of Arkansas had given notice of a proposed amendment to the House bill which dealt only with the farmers, and at his request the subcommittee considered that proposed amendment.

"After further criticisms and further consideration, the subcommittee made many changes in this bill and finally reported to the full committee what is known as 'committee print No. 2' of that bill. The members of the subcommittee were not unanimous in recommending that the bill contained in committee print No. 2 be passed by the Senate because they had not all had sufficient opportunity to study it in all of its details, but all members of the subcommittee appreciated that unless we made a report to the full committee now and the full committee made a report promptly to the Senate that it would be impossible to get any action during this session of the Congress.

"On February 13 this whole subject was laid before the full committee, and there was a very general sentiment among the committee that the section pertaining to corporate reorganizations, and the section pertaining to railroads engaged in interstate commerce were so far-reaching and so controversial that there would be no hope of getting this bill through for the relief on the individual

debtor and the farmer unless those two sections were left out. The committee thereupon directed that sections 74, 75, and 76 of the House bill be stricken out and that sections 74 and 76 of the 'committee print No. 2' of S. 5551 be substituted and that the bill be passed by the Senate.

"Section 74, covering compositions and extensions applies to individuals, and excepts farmers and corporations. Any debtor, with the exceptions mentioned, may file a petition in the bankruptcy court stating that he is insolvent or unable to meet his debts as they mature and that he desires to affect a composition or an extension of time to pay his debts. If an involuntary petition has been filed by his creditors, he may in his answer admit the allegations and state that he desires to effect a composition or extension. Upon filing the petition or answer the judge shall enter an order either approving it as properly filed under this section, or dismissing it. If the petition or answer is approved there shall be no order of adjudication as in ordinary cases. The matter, however, is immediately in the hands of the court and it may impose such terms in staying the action as it deems necessary. The person filing such petition or answer shall be called a 'debtor' instead of a 'bankrupt.' Provision is made for the appointment of a custodian or receiver, the giving of notices to creditors, the filing of schedules, the examination of the debtor, the nomination of a trustee by the creditors, etc.

"Paragraph (e) provides that an application for the confirmation of a composition or an extension proposal may not be filed unless it has been accepted in writing by a majority in number and a majority in amount of the claims against the creditor.

"Section (e) of the House bill contains another very important provision as follows:

"failing to obtain the acceptance of a majority in number of all creditors whose claims have been allowed, including secured creditors whose claims are affected by an extension proposal representing a majority in amount of all claims as in clause (1) the debtor may file a proposal for an extension, including a feasible method of financial rehabilitation for the debtor which is for the best interest of all the creditors, including an equitable liquidation for secured creditors whose claims are affected;

"It will be observed that an effort has been made in the House bill by the language above quoted to extend the benefits of the bill to the individual debtor regardless of the opinion and desire of his creditors. It is true that his proposal for an extension must include a feasible method of financial rehabilitation and that it is to the best interest of all of the creditors, but it seems to the committee that if a debtor finds himself in a position where he can present a feasible method of financial rehabilitation and that it will be for the best interest of all of the creditors that he ought not to have difficulty in getting a majority in number of his creditors and a majority in amount of the claims of his creditors to agree to his proposal. It is not believed to be a practical thing to impose this duty upon a referee in bankruptcy, a Federal judge, or any other human being, for that matter. No person ought to be compelled to sit in judgment upon the application of a debtor to protect him and his property from creditors who are insisting that the money due them be promptly paid. It would be unfair to the Federal judges to place any such responsibility upon them.

"Under normal conditions with adequate time to investigate and consider the matter, they might be relied upon to do justice to the debtor on the one hand and the creditors upon the other, but when you take into consideration the distressed condition of the debtors all over the Nation and the anxiety they have to save their property until prosperity returns, it can readily be seen how quickly they would rush to the Federal court for relief; how impossible it would be for the judges to give proper consideration to the cases presented to them, and how disappointed the debtors would be if the court failed to force an extension upon the creditors of such debtor. It must be borne in mind also that under normal conditions these questions are passed upon by the referees and not by the Federal judges.

"Paragraph (g) of this section provides for a confirmation of the proposal if the court be satisfied that—

"(1) It includes an equitable and feasible method of liquidation for secured creditors whose claims are affected and of financial rehabilitation for the debtor; (2) it is for the best interests of all creditors; (3) that the debtor has not been guilty of any of the acts, or failed to perform any of the duties, which would be a ground for denying his discharge; and (4) the offer and its acceptance are in good faith, and have not been made or procured except as herein provided, or by any means, promises, or acts herein forbidden.

"Paragraph (h) provides:

"The terms of an extension proposal may extend the time of payment of either or both unsecured debts and secured debts the security for which is in the actual or constructive possession of the debtor or of the custodian or receiver, and may provide for priority of payments to be made during the period of extension as between secured and unsecured creditors.

"Paragraph (i) is as follows:

"Upon its confirmation an extension proposal shall be binding upon the debtor and his unsecured and secured creditors affected thereby: *Provided, however,* That such extension or composition shall not impair the lien of any secured creditor, but shall affect only the time and method of its liquidation.

"There was a sincere effort made in the subcommittee to provide in this bill some safe relief for the debtor as against his secured creditors. Under normal conditions a proposal to affect in any way a secured creditor by any bankruptcy proceedings would be somewhat shocking. It is a well-known fact, however, that under the present bankruptcy law the Federal court has sufficient control over the estate of a bankrupt to prevent foreclosure of a mortgage and other like enforcement of liens until the court has disposed of the litigation before it. Bearing this in mind, the committee sought by legislative action to authorize the court to extend that authority, providing it be equitable and feasible. It distinctly provides, however, that such extension or composition shall not impair the lien of any secured creditor, but shall affect only the time and method of its liquidation.

"This does not go as far as some would like to go and under normal conditions it goes farther than others would be willing to go. It is believed, however, that a careful administration of the law will prevent it from working any great hardship upon the creditor and will at the same time enable many distressed debtors to recover somewhat from the shocking conditions which confront them.

"It will be observed that section (h) of the House bill

in this respect has been modified so that it applies only to 'secured debts, the security for which is in the actual or constructive possession of the debtor or of the custodian or receiver.' It was believed that if every form of collateral that was deposited as a security for a loan should be subjected to review by the court in any proceedings under this act that it could but result in a greater value of collateral being required by the person or institution granting the loan in the first instance. The tendency would be to further restrict credit.

"Paragraph (k) provides for setting the composition for extension proposal aside for fraud.

"Paragraph (l) provides for adjudication in bankruptcy for failure of the debtor without sufficient reason to comply with the terms set forth in the confirmation or upon failure of the court to confirm.

"Paragraph (m) gives the court exclusive jurisdiction of the debtor property wherever located upon the filing of the petition or answer and gives the court the same powers and provides for the payment of the same fees as though the petition had been a voluntary petition for adjudication under the bankruptcy act.

"Paragraph (n) gives the court power to stay pending suits against the debtor, including suits by secured creditors who may be affected by the extension proposal.

"Paragraph (o) of the House bill sets up a new schedule of fees. It provides that the clerk shall receive \$2, and if the total assets of the estate amounts to no more than \$10,000, the referee shall receive \$10 and the filing fee in each case shall be \$5, making a total fee of \$17 in the case of a debtor having \$10,000 of assets.

"Bearing in mind such an estate might require several hearings, might have numerous creditors, and thus involve a great amount of work, it is believed that to so limit the amount charged would greatly handicap the administration of this section. In the amendment proposed by the committee this section has been stricken from the House bill. Attention is called in this connection to paragraph (m) which provides that all proceedings under this section, unless otherwise provided, shall be the same as if a voluntary petition for adjudication had been filed. This includes fees to be charged, but the fees under this section are 'subject to the approval of the court.' This would seem to give the necessary latitude for a proper allowance in all cases.

"Paragraph (p) of the House bill provides for the appointment of sufficient referees to sit in convenient places to expedite the proceedings in this section and also provides that there shall be at least one in each county. It is not believed that it is advisable to compel the appointment of a referee for each county. The committee has stricken from the section the words, 'and there shall be at least one in each county.'

"Section 75, covering agricultural compositions and extensions is intended to apply alone to the farmer. The last paragraph of the section defines a farmer who may take advantage of the provisions of this section.

"There was no such provision as this in the House bill and as heretofore stated in this report, this section is the proposed amendment of Senator Robinson of Arkansas, with some important modifications.

"It gives the bankruptcy courts authority, 'upon petition of at least 15 farmers within any county, who certify that they intend to file petitions under this section, to appoint for such county one or more referees to be known as conciliation commissioner,' etc. Persons engaged in deal-

ing with farmers are not qualified to act as conciliation commissioners. There is also a provision for the appointment of a supervising conciliation commissioner, if the court finds it necessary or desirable.

"Paragraph (b) provides that the conciliation commissioner shall be paid for each case the sum of \$10 out of the Treasury of the United States and that any supervising conciliation commissioner shall be paid not more than \$5 per day and his expenses. The farmer making application deposits the sum of \$10. This amount is intended to cover all other costs in the case. It is believed that the only actual cost to the Government will be the \$10 paid to the conciliation commissioner and that the \$10 deposited by the farmer will be sufficient to cover all other costs incurred by the Government in the case. This does not, take into consideration, however, the expense of a supervising conciliation commissioner.

"In addition to the lessening of the cost to an applicant, it is believed that having a conciliation commissioner in each county would be of great convenience to the farmer and such conciliation commissioner could do a great deal toward adjusting the affairs of the farmer with his creditors.

"It has been pointed out, however, that such conciliation commissioner is the referee; he passes upon contested claims, fixes the time for filing schedules, and is required to do many other things that are purely judicial and that the plan outlined here for his appointment necessarily prejudices him in favor of the farmer.

"Attention has also been called to the fact that unless there be as many as 15 farmers in any county that it is not possible for a farmer to take advantage of either this section or section 74.

"With the exceptions here pointed out the general purpose of the section is to follow the section relating to individual debtors so far as may be. The committee did not have the advantage of the advice of the Solicitor General in perfecting this section. It has been but recently submitted to him and he states that in his opinion serious questions may arise in its administration. It may require important revision before it can be made satisfactory to the Senate.

"Attention is called to a memorandum by the Solicitor General appearing in the Congressional Record under date of January 28, 1932, at page 2912, relating to this new chapter of the bankruptcy act." (See the Digest for June, 1932).

Beer

THE bill to legalize the manufacture and sale of beer (H. R. 13742) which passed the House on December 21, 1932 went first to the Senate Committee on the Judiciary, which, on January 23, 1933, reported it with amendments reducing the alcoholic content from 3.2 per cent as fixed by the House, to 3.05 per cent; including wine and other beverages; adding a restriction on advertising so that no announcements of prices or places of purchase may be carried into dry states and adding a provision prohibiting sales to minors.

The bill was then sent to the Committee on Finance for a report on its revenue raising features. The Finance Committee reported the bill on January 30 without amendment. Ogden L. Mills, Secretary of the Treasury, informed the Finance Committee that he estimated that the

tax of \$5 a barrel on beer, as provided in the bill, would produce an annual revenue of between \$125,000,000 and \$150,000,000.

On February 21 the bill was still before the Senate awaiting action. (See the Digest for January 1933).

Economy

THAT nothing approaching a definite policy on Governmental economy will be arrived at before March 4 was made plain when the Democratic leaders in the House definitely decided not to act on President Hoover's recommendations to assist in balancing the budget by authorizing him to consolidate various bureaus in the executive departments.

This problem, the Democrats declare, will be given prompt consideration by Governor Roosevelt and the Democratic House and Senate during the forthcoming extra session.

Cuts are being made in all departmental appropriation bills, but no information as to a comprehensive plan will be available until Congress receives recommendations from Mr. Roosevelt. It is expected that the new Congress will enact legislation giving the new President extensive authority to consolidate various bureaus and agencies.

This, however, will involve a reduction in personnel, and Senators and Representatives who have seen service, in Congress through several administrations privately express the opinion that reducing the number of Federal employees is something easier said than done, particularly in a period of economic depression, when the demands for Federal offices is heavier than usual.

Eighteenth Amendment

THE joint resolution for repeal of the Eighteenth Amendment (S. J. Res. 211) passed the Senate on February 16 by a vote of 63 to 23 and passed the House on February 20 by a vote of 289 to 121.

Prior to this a House Joint Resolution (H. J. Res. 480) for the same purpose had been defeated on December 5, 1932.

The full text of the resolution follows:

"That the following article is hereby proposed as an amendment to the Constitution of the United States, which shall be valid to all intents and purposes as part of the Constitution when ratified by Conventions in three fourths of the several States:

"Article —. Section 1. The 13th article of Amendment to the Constitution of the United States is hereby repealed.

"Section 2. The transportation or importation into any State, Territory or possession of the United States for delivery or use therein of intoxicating liquor, in violation of the laws thereof, is hereby prohibited.

"Section 3. This article shall be inoperative unless it shall have been ratified as an amendment to the Constitution by conventions in the several States, as provided in the Constitution, within seven years from the date of the submission thereof to the States by the Congress."

The Students' Laboratory



The Students' Question Box

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Articles on the Operation of the Federal Government

Replies to Queries

Q. What are the first duties of a newly inaugurated President?—L. G. R.

A. Immediately after he has taken the oath of office as President of the United States at noon on March 4, Franklin Delano Roosevelt will go to work. His first official act will be the delivery of his inaugural address. This follows the taking of the oath on a stand erected at the foot of the steps leading from the Rotunda of the Capitol to the Plaza on the East Front.

In this inaugural address a new President usually sets forth the high lights of the program he expects to put into operation during his administration as Chief Executive of the Nation. Frequently it is a long address, but it is rumored that President Roosevelt's inaugural address will be brief.

Following this, the newly installed President is driven to the White House for lunch before going to the stand in front of the White House to review the inaugural parade.

Congress has adjourned at noon (on this occasion adjournment on March 4 will mark the end of the Seventy-second Congress), but the outgoing President has, by arrangement, called the Senate into extra session in order that it may confirm nominations by the new President of Cabinet officers and other important officers the latter may wish to name.

Either before he leaves the Capitol after taking the oath, or as soon as he reaches the White House, the new President sends to the Senate the Cabinet nominations, and the Senate, having been called to order by the new Vice President, promptly confirms them.

The retiring Cabinet officers, whose resignations are on the President's desk when he takes office, usually stand by

and receive their successors at their respective offices, either on the afternoon of March 4 or the morning of March 5. This is done merely as a matter of courtesy, since the retiring cabinet officers have lost their official status as soon as the Senate has confirmed their successors.

Unless there is a pressing problem, the President does nothing of any moment during the afternoon and evening of March 4, but on the following morning he goes to his desk and plunges into his duties.

The principal immediate task of a new President, after he takes the oath of office, therefore, is to appoint and have confirmed his cabinet and numerous other important officers of the executive branch of the Government and get them installed in office in order that his administration may begin to function. The Cabinet is, of course, made up before the new President is inaugurated, but there are a hundred and one other key positions that must be filled and the selection of men to fill them is not an easy task.

The members of the Cabinet are really secretaries of the President, each assigned to be the head of one of the ten departments of the executive branch of the Government. Each is appointed by the President "by and with the consent of the Senate." When a majority of the Senate votes to approve the appointment of a Cabinet officer it "confirms" that appointment. Without Senate confirmation a cabinet officer cannot function unless he happens to be appointed at a time when Congress is in recess.

Such appointments are called "recess appointments" and the appointee may serve and exercise the functions of his office until Congress convenes. The President must then send his name to the Senate for confirmation. If the Senate confirms the recess appointee, he may carry on. If, by a majority vote, it rejects the nomination, the recess appointment must be withdrawn by the President and another person appointed.

Immediately after the adoption of the Constitution, four executive departments were created by Congressional action. They were the Departments of State, the Treasury, War and Justice.

As the country grew, more departments were from time to time created, until now there are ten. In the order of their creation they are the Departments of State, Treasury, War, Justice, Postoffice, Navy, Interior, Agriculture, Commerce, Labor.

In 1886 Congress, following the assassination of President Garfield, passed what is known as "the Act of Succession," providing that in the event of the death or removal by impeachment of both the President and Vice President, the succession to the Presidency should fall to the Cabinet in the order of the creation of the Departments. This law, however, did not cover the Secretaries of Commerce and Labor, since those departments were not in existence at that time.

If one has difficulty in recalling the order of the Cabinet officers, it may be helpful to commit to memory the following, coined, it is believed, by a member of the faculty of the University of Illinois:

"St. Wapniac."

The name of this mythical saint is composed of the

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How Uncle Sam's Laws Are Made

Series by Norborne T. N. Robinson

THE following article is the tenth of a series of consecutive articles in which all phases of House and Senate procedure will be described. The articles are being prepared with the aid of the leading parliamentary authorities at the Capital, including members of both the Senate and the House and officers of those bodies.

THE Private Calendar is described in Rule XIII of the House Rules as "A calendar of the Committee of the Whole House to which shall be referred all bills of a private character." This means, in general terms, bills which, although they may appropriate money or possess other characteristics of bills which must be considered by the Committee of the Whole House, do not affect the country as a whole and are not of general public importance.

Thus, various bills to correct the public records of Government officials and employees, bills for small individual claims against the Government and bills affecting a single locality only are the bills which are usually placed on the private calendar.

The method of considering bills on the Private Calendar is set forth in Rule XXIV, Clause 6, which really tells the whole story, as follows:

"On Saturday of each week after the disposal of such business on the Speaker's table as requires reference only, it shall be in order to move that the House resolve itself into the Committee of the Whole House to consider business on the Private Calendar. In the Committee of the Whole House the Chairman shall direct the Clerk to call the bills in numerical order that have been upon the Private Calendar for three legislative days. When the Clerk shall have read the bill the same shall be considered unless objection or reservation of objection is made to immediate consideration. Should objection or reservation of objection be made there shall be 10 minutes general debate to be divided, 3 minutes controlled by the Member offering the objection or reservation, and 5 minutes controlled by the chairman of the committee reporting the bill, or in his absence by any Member supporting the bill. If, after such debate, three objections are not forthcoming the bill shall be considered under the 5-minute rule: *Provided, however,* That the total debate under the 5-minute rule shall not exceed 20 minutes. After the debate hereinbefore referred to, or when the bill is first called, if objection is made by three Members to the consideration of the bill, then the same shall be passed over and carried to a list designated as 'deferred.' It shall be in order for the bills on the 'Deferred List' to have the first call in their numerical order when the Private Calendar is called on the last Saturday of each month. At this time the bills on the 'Deferred List' shall be considered under the general rules of the Committee of the Whole House with 10

minutes general debate to be divided equally, with 5 minutes controlled by the chairman of the committee reporting the bill or other Member supporting the bill, and 5 minutes controlled by any Member objecting or opposing the bill. After the debate the bill shall be read for amendment under the 5-minute rule: *Provided, however,* That the total debate under the 5-minute rule shall not exceed 20 minutes. If, however, after such consideration the committee of the Whole House acts on the bill adversely, it shall be laid aside until the committee arises, whereupon it shall be reported back to the House with the adverse recommendations. Any bill under this rule reported back to the House with an adverse recommendation shall automatically be recommitted to the committee reporting it, and said bill shall not again be reported during the same Congress."

A bill on the Private Calendar, while rarely of any importance to the country as a whole, is frequently of great importance to the individual Representatives introducing it. Many a Representative has won reelection or suffered defeat on account of some small private bill covering a matter of peculiar local interest in his district. Consequently, there is great interest on the part of Members of the House in the Private Calendar. This may be readily understood when it is noted that on February 21, 1933, there were approximately a thousand of these minor bills listed on the Private Calendar of that date.

The Consent Calendar.

As a result of a practice of passing certain bills on the Union or House calendars by unanimous consent, the House, in 1909, created a special calendar for bills of this character. The original name of this calendar was "The Calendar of Unanimous Consent," but later the title was shortened to "The Consent Calendar." Bills on this calendar are considered regularly on the first and third Mondays of each month.

Rule XIII, Clause 3, makes the following provisions for transaction of business under the Consent Calendar:

"After a bill has been favorably reported and shall be upon either the House or Union Calendar any Member may file with the clerk a notice that he desires such bill placed upon a special calendar to be known as the 'Consent Calendar.' On the first and third Mondays of each month immediately after the reading of the Journal, the Speaker shall direct the Clerk to call the bills in numerical order, which have been for three legislative days upon the 'Consent Calendar.' Should objection be made to the consideration of any bill so called it shall be carried over on the calendar, without prejudice to the next day when the 'Consent Calendar' is again called, and if objected to by three or more Members it shall immediately be stricken from the calendar, and shall not thereafter during the same session of that Congress be placed again thereon: *Provided,* That no bill shall be called twice on the same legislative day."

When, the Consent Calendar was first established one objection to consideration of a bill as it was reached killed that bill for the remainder of the session. It occasionally happened, however, that a single disgruntled member would object to a bill through petulance. Therefore, the

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Replies to Queries Continued

initial letters of the State, Treasury, War, Attorney General (head of the Department of Justice), Postoffice, Navy, Interior, Agriculture, Commerce, and Labor Departments.

The President meets with the Cabinet twice a week—on Tuesdays and Fridays. At these meetings, which in recent years have been attended by the Vice President, the President calls upon the Cabinet members in order, for reports. The whole Cabinet indulges in discussion of general problems. Frequently, the President has special meetings with individual members of the Cabinet. Each Cabinet officer prepares an annual report on the work of his department. These reports are handed in to the President, who transmits them to Congress.

The actual importance of a Cabinet office depends upon the character of the President. Some Presidents give their Cabinet officers wide scope in the management of their departments, trusting in their ability and judgment to carry on their work with a minimum of interference from the White House. Other Presidents prefer to supervise every important move.

Among the modern Presidents who gave their Cabinet officers great authority were Theodore Roosevelt, Taft, Harding and Coolidge. Those who kept a tight rein on their Cabinet officers were Wilson and Hoover.

The manner in which a President works with his Cabinet, in short, follows the line in which the president of a company or the owner of a large farm works with the men under him, or the manner in which a college president or a school superintendent works with his faculty. It is, to a great extent, a matter of individual method.

An incoming President finds the executive departments all set up. He picks the men to head them and then supervises these men according to his own methods.

The President is always the Chief Executive and consequently has the legal power to order a Cabinet officer to put the Presidential policies into effect in that Cabinet officer's department.

Occasionally, such differences of opinion arise between a President and one of his Cabinet officers that they can not work together and the Cabinet officer, as a result, either resigns voluntarily, or is requested to resign by the President.

These instances, however, are not common, since a President usually knows all about a man's views before he invites him to be a member of his Cabinet.

As a general rule there are two or three of the Cabinet members on whom the President leans heavily for advice and counsel, not on account of the particular departments they head, but for personal reasons.

With Theodore Roosevelt the most influential Cabinet members were Elihu Root, Secretary of State, and William Howard Taft, Secretary of War. With Taft; they were Philander C. Knox, Secretary of State, George W. Wickersham, Attorney General, George B. Cortelyou, Secretary of the Treasury, and Frank H. Hitchcock, Postmaster General. With Wilson; the leading influences were William G. McAdoo, Secretary of the Treasury, Newton D. Baker, Secretary of War, and Franklin K. Lane, Secretary of the Interior. With Harding the outstanding men were Charles Evans Hughes, Secretary of State, Andrew W. Mellon, Secretary of the Treasury, Herbert Hoover, Secretary of Commerce, and John W. Weeks, Secretary of War. These same four were Coolidge's mainstays. Hoover's closest advisers have been Walter F. Brown, Postmaster General, Henry L. Stimson, Secretary of State, and Ray Lyman Wilbur, Secretary of the Interior.

How Uncle Sam's Laws Are Made Continued

rule was revised to permit a bill to be called up again on the next day the Consent Calendar was considered. The rule was also revised so that upon the second occasion of the calling up a bill which has once been objected to, the objection of three members is necessary.

Of course, the fact that a bill is taken up for consideration on the Consent Calendar does not insure its passage. It still must be passed by a majority vote.

The very fact, however, that its author or the chairman of the committee from which it is reported, places a bill on the Consent Calendar is indication that he does not anticipate serious opposition to it. By putting a bill on the Consent Calendar a member is sure of quicker action. If his bill is objected to twice and is removed from the Consent Calendar in consequence, it goes back on the Union Calendar and awaits its turn for consideration.

This Month's Contributors

Bernard N. Baruch, Noted N. Y. Banker and Financier.
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Hon. Harold McGugin, U. S. Rep., Kans., R.
Hon. Ogden L. Mills, Secretary of the U. S. Treasury.

Hon. Wright Patman, U. S. Rep., Texas, D.
Hon. John E. Rankin, U. S. Rep., Miss., D.
Marvin S. Rathburn, New York Financial Writer.
Hon. James G. Strong, U. S. Rep., Kans., R.
Mark Sullivan, Author and Political Writer.

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